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ON BEING AN ECONOMIC ADVISER[1]

. . . The valued file
Distinguishes the swift, the slow, the subtle.
William Shakespeare

I

THERE was a time when the business of industry and of government was transacted without the cloud of expert witnesses that is now considered necessary. In the days before the war it was rare to find in Government employment any professional economist or anyone who carried the label 'economic adviser'. It was not until the outbreak of war that economists began to find themselves sought after as advisers and a fashion was set which, after the war, became something of a fad. I propose to discuss the work of these mysterious personages, drawing on my own experience as an economic adviser.

When I look back on this experience and try to analyse it, I do not find it easy to reduce it to a faithful and intelligible picture. Like the businessman who is cross-examined by an economist on how he runs his business, or the aged, aged man suddenly confronted by the White Knight, I have no difficulty in giving an account of my activities—indeed, a number of rather conflicting accounts. But like them, I find, to my consternation, that the account turns out to be one which I am hardly able to recognise and which sensible men may well regard as faintly absurd. The easiest course for me to take is to present a mass of illustrative detail and abstain rigorously from generalisation, since generalisation requires long reflection and not just long experience. I shall try, however, to offer some generalisations and substantiate them without presuming much knowledge either of economic theory or of administrative practice and without entering into detail about the issues on which advice was required.

[1] This is a version of a paper read to various societies in the recent past.

There are many different kinds of economic adviser, performing different functions and employed in all sorts of organisations. There are the advisers in the public service attached to Government departments, foreign embassies, nationalised industries, and so on; there is the advisory work that goes on in commerce and industry, banking and finance; and there are the free-lance consultants who offer advice for a fee or, more commonly, issue it gratis in the public press. There are advisers who never emerge from the backroom and have their say entirely in private; and there are those, like the Council of Economic Advisers in the United States, whose advice may be published and, in due course, challenged by hostile critics. There are also top-level advisers who are sufficiently exalted to need no staff, top-level advisers who direct the work of a considerable staff, and the less exalted advisers who form the staff and advise the advisers.

This last classification merits some elaboration. The typical pre-war adviser was of the first type; he was a person of standing and distinction in his profession who was asked to act in a personal capacity as adviser to a large organisation; or he was invited, as one who had already made his name as an economist, to join a panel of expert consultants. A well-known example is that of Sir Sydney Chapman, who, after serving with the Board of Trade during the First World War as head of the General Economic Department, was later appointed Economic Adviser. Another familiar (and illustrious) example is that of Sir Henry Clay, who became Economic Adviser to the Bank of England in 1931 and during the war was for a time, like Sir Sydney Chapman, Economic Adviser to the Board of Trade. Among the various advisory panels of economists which have been set up from time to time in this country the best-known are the Economic Advisory Council, a representative and unwieldy body that came into existence in 1930 and has not been heard of since 1939, and its successor, the Survey of Financial and Economic Plans, which expired in giving birth to the Economic Section of the Cabinet Office early in 1941. About the work of these two bodies little has been made public, but the general trend was obviously away from a highly distinguished group of outsiders, approving or composing occasional memoranda on set themes, to a paid staff, working full-time within the normal administrative machinery.

The second type of economic adviser, directing the work of a permanent staff of economists, is now increasingly common. Such an adviser may be the head of an economic intelligence division or of a market research department, he may be in charge of a planning staff, or he may combine administrative and advisory duties like the Economic Adviser to the Military Governor of the British Zone of

Germany after the war. When administrative duties are added—or even when they are not—an adviser of this type may turn out to be someone who is not a professional economist at all, or has only a limited acquaintance with economic theory, but has a reputation for common sense and organising capacity. He may, for example, be a business man who understands the ways of government, or an army officer with a staff training, or an editor who has successfully run a daily or weekly newspaper.

Although the duties of advisers of this type are superficially very heterogeneous it is surprising what a large element they have in common. Very much the same gifts of character, temperament, experience and intelligence are required whether the staff which the adviser directs is in the Treasury preparing briefs for the Chancellor, or in the Ministry of Aircraft Production planning the aircraft programme, or, for that matter, in the economic research department of a university. The work varies a great deal more than the bent that goes with it.

So much is this true that it is reasonable to ask whether an academic training in economics is indispensable to an economic adviser or whether it is not more important to find a man with the right gifts and trust him to work out the theory for himself. To a mature and experienced man with an eye for the ways of the world there is nothing very abstruse about economic theory: certainly not about those parts of economic theory that are truly operational and bear on the real dilemmas of policy. It is arguable that the economic theory that is taught always relates to the problems of an earlier decade or even an earlier generation and that it is left to administrators to recognise the new problems as they emerge, grapple with them and subdue them with such theoretical tools as they can fashion. All this may be so: there have been some brilliant late-comers to economics and some stimulating amateurs. Yet I must confess that when I look, not at the few exceptions, but at the mass, I find that my regard for economics as an intellectual discipline is quickly restored and that I should be loath to dispense with that discipline in anyone aspiring to be called 'economic adviser' except by way of courtesy.

My own experience has been largely as one of the myrmidons who form the staff of this second type of economic adviser, and who can indeed be classed as a separate, third, type. At one time, however, my work approximated fairly closely to that of the second type and at another it had some of the characteristics of the first. I propose to give you a concrete description of that work, first at the Board of Trade (where I acted as Economic Adviser from 1946 to 1949)

and secondly with the O.E.E.C. in Paris (where I was Economic Adviser between 1949 and the end of 1950).

II

Before doing so, however, I must ensure that you have in your minds some picture of the inside of a large sprawling organisation with large sprawling responsibilities, since it is precisely within such organisations that economic advisers are generally employed. Although I have used the term 'organisation', even this, I fear, is a little misleading, since it is more common to find a large muddle tempered by a little organisation than a large organisation struggling to prevent an occasional muddle. This is inevitable. In a small firm everybody knows what is going on, and yet misunderstandings arise, slips go uncorrected, work of little value is given precedence over far more important work, and the management is constantly failing to detect and prevent waste of time and effort. How much more true this must be where the employees number thousands, the departments are many and specialised, decisions have to be taken in the dark and remote from the persons affected, and the need for speed collides with the need for consultation with all the interests affected. What then of a Government department where, on top of all this, come the pressure of public opinion and the risk of parliamentary rebuke? In such an atmosphere policy swings between the opposite poles of caution and rashness: caution when action can be deferred or hedged, rashness when sudden decisions have to be taken; caution among the lowly who are inhibited by a full understanding of the obstacles to action of any kind; rashness among the exalted who have fewer inhibitions and are ignorant either of the real issues involved or of the probabilities governing the decision to be taken. The various divisions within the department, loosely geared together, uncertain of the limits of their responsibilities, losing and gaining staff almost every week, themselves dissolving from time to time into new divisions or subdivisions, and facing an avalanche of fresh problems on which to advise, fresh cases to decide, and fresh policies to apply, inevitably present to the newcomer the appearance of muddle.

Nor are appearances altogether deceptive. There *is* plenty of muddle, just as there is plenty of muddle in every army. But the muddles which come to the attention of the public are not necessarily those that really matter. The public may utterly condemn one department for some piece of trivial craziness while the Minister of another, far less efficient, department builds up a great reputation. It is usually possible to tell from the outside which departments are the most

efficient but it is rarely possible without working in one to gauge the precise degree of remediable muddle from which it is suffering—and certainly quite impossible to alleviate the muddle by offering advice from outside.

You may ask yourself, as I did when asked to go to the Board of Trade, what an economic adviser could hope to accomplish in such an atmosphere. There was surely little that needed to be said to a large and versatile staff of skilled administrators by an economist who, in any event, had not taught economics for many years. I was told that I should be much more likely to influence policy if instead of writing paragraphs for *The Economist* I wrote minutes for the President. I was doubtful about this at the time and remain doubtful now. What did seem possible to me was that, as a result of nearly four years in the Ministry of Aircraft Production, I might know more about certain types of muddle than my future colleagues, and that these types of muddle might crop up in the Board of Trade. Most people seemed to treat the experience of the Ministry of Aircraft Production as proof of the ease with which our economy might be planned. I drew the opposite conclusion, and justified to myself the acceptance of the post of Economic Adviser on the grounds that I should be renewing the daily combat with chaos that was dignified by the title of 'planning' in the Ministry of Aircraft Production.

Here I may repeat to you three pieces of advice which I was given by the first permanent civil servant with whom I worked, Sir Piers Debenham. (I should add that he was a very unusual civil servant, even when one applies the high standard of unusualness necessary in the British Civil Service, and that he proved to be no more permanent than I was.) He laid down, first, that a man was no good as a civil servant until he had had three years' training in frustration—after that he found the right way to go about things instead of constantly knocking his head against brick walls; second, that no-one bothered to decide *important* matters—what always received prior attention was what was *urgent*; third, that the first obligation of a civil servant was to keep his Minister out of scrapes. This bureaucratic testament I found hard to swallow at the time but it stood me in good stead later.

I found from experience, however, that one other maxim was even more important. This was that the civil service was the last home of private enterprise; it was most unusual to be told exactly what to do. No doubt some civil servants could content themselves with waiting for the files to arrive, but only if their duties were specific, continuing and publicised. A new arrival had usually to find work for himself, not hang around waiting for it; he had to take the initiative, discover

for himself who did what and who needed help, and by launching a minute or commenting on an intercepted file, win acceptance as an 'authority' on the chosen subject. This was as true of economic advisers as of anyone else. It was rare for any division of the Board of Trade to send me a file out of the blue, but if I once showed an interest in some particular problem and wrote anything, however misinformed, on the subject, I could rely on a steady traffic in files, almost indefinitely, from the division concerned.

It was important to learn this lesson early, because the adviser who does not take the initiative readily is soon diverted to other work. A busy man who has an economist attached to his staff is often at a loss to see any difference between the economist and his colleagues; although he may feel vaguely that the economist should have some special function, he is not quite sure what that function is and has little time to work out special assignments for him. To have one more subordinate who is for ever asking, 'What do I do next?' and, still worse, to have no answer ready, is a bore and a burden, but to have someone who can single out the significant question, and the significant item of information, and thrust it forward uninvited is a godsend. The difference between a good economic adviser and a bad one is that the first keeps asking, 'Would it not be better to do this?' or 'Have you realised that?', while the second buries himself in the preparation of long and pointless memoranda that no-one has time enough to study.

Unless he occupies a very exalted position in the official hierarchy, therefore, the economic adviser is apt to discover that he is very rarely asked for advice. His duties may be both trivial and ill-defined and he may easily find himself excluded from consultation on the very issues on which he feels qualified to offer an opinion. A Government department when it recruits an economic adviser, particularly if he is a young man, always feels tempted to thrust on him the unappetising responsibilities which every other member of the department shuns. He will be asked, for example, to write speeches for his Minister (who will generally have the good sense not to deliver them). He will be asked to look at all the more cranky suggestions that are sent in by members of the public or Members of Parliament. He will be asked to draft lengthy reports which are a standing responsibility of the department, but which senior officials are too busy to undertake. Added to all this, he may find that while he is an adviser, no-one particularly wants to be advised. He may be left without access to the person in authority who ought to have the benefit of his advice.

It may seem odd to you that I should make this point. The layman generally assumes that an economic adviser is a very exalted person

and that if he is attached to a department he advises the Minister. When I was at the Board of Trade I was often referred to by outsiders, quite mistakenly, as adviser to the President. This was obviously not only wrong in fact but quite wrong in terms of the normal working of the British administrative machine. The person in the Board of Trade who advises the President is the Permanent Secretary. If there is an Economic Adviser, it is his duty to pass any advice that he has to offer to the Permanent Secretary. There may be occasions when it is tempting to by-pass the Permanent Secretary and send something straight to the Minister. With one solitary exception, however, I made it a point of principle never to seek to minute the President or to advise him in any way other than through the Permanent Secretary, and I am certain that departure from this principle would be fatal to sound administration.

In a sense, nearly all the senior officials were economic advisers. If one stopped to think what they did and how one could measure their output it became apparent that it was their job to advise the President and that the more senior they were, the larger their output of advice on important matters. They might have other duties involving the articulation of a policy already accepted or the formulation of proposals to modify existing policies in the light of experience of their working, but they also expected to have the last word in the chain of advice that leads up to the President a great deal more often than the economic adviser.

III

I now turn to the work that I did at the Board of Trade. When I was on the point of leaving, my last task was to advise the Permanent Secretary on a successor, and I found it convenient for this purpose to put on paper a short description of my duties, so far as I could fathom them. I pointed out that these duties had varied a good deal over the three years in which I had been employed and that some of them, since they had no obvious association with the post, would not necessarily fall to my successor. I summarised them as follows, taking account of the way in which they appeared to be evolving at the time.

Speeches

I was called on by the Private Office (*i.e.* by the President's staff) to prepare verbatim speeches for the President. I was aware that the President always wrote his own speeches and in due course I was able to establish that he would be satisfied with a summary of a few draft passages, although he liked at times to have a full speech in order to see the general drift of the argument. More frequently, I was asked for additional points, corrections, tables, estimates, and so on. Some-

times the same duties had to be undertaken for the Government spokesman in economic debates in the House of Lords or for the Permanent Secretary (who was frequently invited to address the Imperial Staff College, an Export Conference, or some other body). The speeches that I wrote were usually on general economic issues: for example, on the Budget, the economic situation, the progress of industrial recovery, the export drive, and so on.

Briefs

I was frequently asked to brief the President on some subject of no direct interest to the Board of Trade (*e.g.* the extermination of rabbits, the supply of animal feeding-stuffs) or on a subject that touched several departments but none very deeply: (*e.g.* the long-term programme put forward to the O.E.E.C. in 1948 in connection with the Marshall Plan). I generally briefed the Permanent Secretary for meetings of standing inter-departmental committees of which he was a member.

Memoranda

I was sometimes asked to prepare a document for the President or the Secretary on some general subject, such as controls, raw material prices, and so on. A memorandum seems to be prepared by each successive Economic Adviser on the proposal for a Channel Tunnel and I recall with some regret that this was the work on which I was principally engaged in 1949 when the great debate on devaluation was in progress. Other memoranda, sometimes on problems of policy, sometimes based on research that I had undertaken, were prepared on my own initiative.

These memoranda would be sent to various people in the Board and sometimes to a few economists in other departments. They might be considered at a meeting of the Research Committee (which was useful if further research was required but not as a means of selling new ideas to the policy-makers); or they would (more usually) form the basis of a discussion at the Secretary's regular staff meetings; or they might be revised for submission to an inter-departmental committee, although this was rare unless the document had been prepared to order.

Committees

I represented the Board on one committee which was engaged in considering drafts of the *Economic Survey* and was also a member in my personal capacity of the committee that reviewed the investment

programmes of the various departments. I was naturally drawn into various 'working parties' and 'study groups', but tried to keep attendance at such meetings to a minimum. Apart from formal duties, there was necessarily a great deal of inter-departmental discussion in which I became involved. For example, I generally acted on behalf of the Board in most of its dealings with the Economic Section of the Cabinet Office.

Twelfth Man

Occasionally I was used as a reserve for busy departments, either to go abroad or to help in the preparation of material for conferences. For example, I visited Canada in 1947 as a member of the Liesching Mission, because it happened to be difficult to find a member of the Board of Trade who was familiar with the problems and could be spared for the purpose. Similarly I went to India in 1949 when no-one else was free to go.

Receptionist

Foreigners on a tour of Whitehall studying British economic problems, the technique of planning, and so on, frequently came to the Board of Trade and it was generally left to me to provide the answers. There were visitors from India, New Zealand, the United States, Germany, Persia and other countries, and they had a regular itinerary from one pundit on the doctrine, or practice, of planning to another. The pundits, I fear, were rather disillusioning and the visitors often left in some perplexity. For some reason, I never seemed to be visited by British economists, who appeared capable of making up their own minds about British economic problems and planning, or else did not think that the Board of Trade would have anything useful to say on the subject. Sometimes I was asked to talk to an American journalist, or to show a German politician how things were done in Britain. This generally meant a conducted tour through the Board, with a factory visit thrown in.

Expert Economist

Now and again I was asked, usually by the Secretary, for advice on a rather involved economic issue. My experience was that he had nearly always reached a satisfactory answer independently, so that my advice was more of the nature of confirmatory evidence.

The issues most likely to lead to a request for such advice were in the realms of wage and price policy and budgetary policy. (It was such questions that particularly occupied Sir Stafford Cripps while

he was still at the Board.) More commonly I was approached by other members of the Department who were still under the illusion that there was some magic about economic theory more powerful than common sense. Sometimes I was able to help: generally because I had better or later information about their problem or because I was in a better position to judge how it related to what was going on elsewhere.

I happen to have a note of the subjects on which I wrote minutes during the month of July 1948 and the list is perhaps not unrepresentative. It shows only one side of the work of an economic adviser, the side that takes the form of written comment and analysis, but it does so in a very concrete way and for that reason may be worth quoting. It includes minutes on:

The long-term economic survey,
The long-term demand for steel,
The long-term demand for exports,
The balance of payments, 1948-52,
The monthly economic report,
Sterling area balances,
Trade with the colonies,
Exports of commercial vehicles,
Industrial productivity (four minutes in all),
Capital investment in 1949,
Industrial investment,
Government control of prices after nationalisation,
The clothing ration,
The future of the Tudor,
Synthetic detergents,
Benzol,
Coking coal,
Vermiculite.

I should perhaps add that nearly all these minutes and memoranda, however long, had to be dictated and were not subsequently revised. Since coming back to academic life I have been struck by nothing so much as the entirely different tempo at which work is done. A paper on which a university professor spends a week has to be put together in Government service in a few hours, with nearly as much emphasis on lucidity, economy and order in its composition. Information has to be absorbed, views exchanged and decisions come to at a rapid pace that rarely slackens. All this forces thought. But it also encourages improvisation and forbids that more elaborate, precise

and scholarly treatment of a subject that satisfies the academic temper. One has constantly to pluck apples from the tree of knowledge before they are ripe.

It will be apparent that, in my case at least, the Economic Adviser was no secluded oracle or venerable sage, to be consulted at rare intervals. He was instead an ordinary working member of the Department, drawing occasionally on his training in economic theory but far more commonly on experience and contacts built up over a long period. He was engaged in problems of economic planning in the broad sense: largely in the problems that assume quantitative form and are expressible in programmes.

We have all become a great deal more familiar with Government programmes since the war, but I doubt whether public understanding of them has made much progress. The essence of a programme is that it is an instrument of co-ordination. Programmes are designed to show everybody the direction in which policy is pointing and to stir administrative effort in that direction. This is true, for example, of export, import and investment programmes, just as it is, or used to be, true of the aircraft programme. My main function in the Board of Trade, since it was closely associated with those programmes, was thus a co-ordinating one. I had to keep myself fully informed on the circumstances bearing on departmental programmes and to do everything possible to see that that information was turned to account.

Since work of this kind inevitably involved constant use of figures I had to be something of a statistician, and I found that in some ways this was the most difficult and certainly the least understood part of the whole business. In my experience, very few senior officials in Britain and very few business men are happy in their sums. They have little need of highly-trained statisticians to redress this weakness, but they frequently need a colleague who can look at a table of figures and make the right deductions from it. An economic adviser who is incapable of this may have his uses but will generally be either superfluous or dangerous. A good economic adviser should understand what figures mean and how to use them.

The conclusion which I drew from my experience was that the most important qualification of an economic adviser was that he should be able to smell out what was going on, both inside his department and outside, and that he should be good at intellectual jigsaw puzzles. He ought to know the gossip and shop, and he ought to know how things fit together. These are, I imagine, the qualifications of a good staff officer; they are not the peculiar gift of professional

economists, though a training in economics is an enormous advantage as a chart to the ramifications of economic policy.

I was, in fact, staff officer to the Secretary. A large organisation like the Board of Trade does not co-ordinate itself automatically. Nor could the Secretary really secure effective co-ordination by referring everything to the divisions of the Board. There were too many issues not appropriate to a single division, and some not appropriate to any. It was those issues that were generally referred to the Economic Adviser. He was expected to keep an eye, not on the problems of individual divisions, but on the matters of major policy that were likely to emerge: a fuel shortage, raw material prices, deflation, controls, dollars and all that. He might also choose to interest himself in special problems, such as price policy in nationalised undertakings, methods of expanding steel supplies, and so on. Most of these interests, however, could be regarded as springing from idiosyncrasy. They would not necessarily be shared by other Economic Advisers, since they were of less immediate concern to the Board, or came within a single division of it, or were the primary responsibility of some other Government department.

I have dwelt on the need for an economic adviser of the staff-officer type to be young and nippy, out and about, lapping up gossip, and picking other men's brains. Perhaps I have overemphasised these things. In any organisation, the main job of the economic adviser is to recognise the big issues, to think steadily about them, and to be ready with the right advice at the right time. An adviser who can do that job has generally no need to look for other work to occupy him. But the big issues arise out of lesser ones on which the adviser is inevitably consulted; he finds that if he is to gain a hearing on the big issues he may first have to establish some reputation on the lesser ones; and he may well find that the influence that he can exert is necessarily limited on the really big issues, on which many voices will be raised, while on issues that are in one sense secondary but potentially important he can be of much greater service because such issues are not recognised early enough or given the attention they deserve. If I may put the matter concretely: although I believe that my advice on devaluation was consistently right, pressed as strongly as possible and at exactly the right time, I do not flatter myself that it had any real influence on the course of events; on the other hand, I probably did have some influence on fuel policy and export policy because I knew a little about the technique of drawing up a programme while those who were trying to plan fuel and exports were comparatively unfamiliar with it.

IV

My experience at the Board of Trade may throw some light on the work of one kind of economic adviser. When I joined the O.E.E.C. in Paris I found myself engaged in work of another kind. I was no longer attached to an administrative hierarchy with a clear responsibility for framing and carrying out economic policy. I was, instead, at the head of an economic intelligence division within the secretariat of an international organisation and my advice was offered primarily to the secretariat and only indirectly to the international delegations attached to the O.E.E.C.

My duties in Paris were less varied and can be more briefly catalogued.

Preparation of Reports

The main business of the Economic Directorate was to prepare the annual report of the Organisation and any further reports that appeared necessary. The annual report was of great importance for a number of reasons. In the first place, it summarised the views of the Organisation on the need for Marshall Aid in the forthcoming year and on the progress that had been made over the past year. It was in a sense a statement of the O.E.E.C. case for use by E.C.A. whenever the annual appropriation of Marshall Aid fell due. Apart from this, however, the report had an important function in giving some consistency of policy to the various activities of the Organisation. These activities tended to be carried on throughout the year in isolation from one another and it was only during the preparation of the report that it was possible to review them as a whole and consider in what fresh direction the efforts of the Organisation should be directed.

As time went on it became necessary to prepare other reports: for example, a quarterly report for use by the Managing Board of the European Payments Union. Sometimes, too, a document that was more of the nature of a manifesto than of a report had to be prepared, setting out the views of the Organisation on some new turn of events, like the outbreak of war in Korea, or setting targets for coal, steel, housing, etc., for Western Europe as a whole.

All this meant keeping track of what was going on inside the Organisation, partly with a view to making the composition of the report easier and partly in order to improve the co-ordination of the activities that were in progress.

Statistical Bulletins

It has been my experience in almost every organisation of which I have been a member that the amount of muddle is inversely proportional to the excellence of the statistical services. I have watched the general level of administration improved time and again by measures for the proper assembly and presentation of statistical data. This has generally meant the preparation of a statistical bulletin, so that all the members of the organisation could use the same figures and have ready access to them instead of keeping them tucked away in some forgotten corner of a file or circulating them on flimsy bits of paper in a form that made comparison with other figures circulating in the same way quite impossible.

For this reason I made it my business in Paris to set on foot the preparation of the two bulletins which are now published by the Organisation, one relating to foreign trade statistics and the other to general economic statistics. These bulletins appeared to be doubly necessary after the institution of the European Payments Union, since the Managing Board required to have at its disposal some authoritative comparison of the development of the economies of the member countries.

Committees

The view taken in the O.E.E.C. of the functions of the Economic Directorate was that the less time the members of that Directorate spent in committees the better. This was a view with which I was in wholehearted agreement. But it was impossible to avoid a good deal of committee work, for example, in piloting the annual report of the Organisation through an extremely critical committee of distinguished economists who were liable to treat each turn of phrase with the same attention that a lawyer would give to a clause in an international agreement. At a later stage, when an Economic Committee was set up, it was also inevitable that the economic adviser should serve on the committee and take responsibility for the drafts submitted to it.

Formulation of Policy

The General Secretary of the Organisation naturally turned to the economic adviser for advice on the general trend of policy that should be recommended for study and approval by the member countries. On issues such as liberalisation of trade, harmonisation of economic policies, the institution of a European Payments Union, and so on, the economic adviser would be expected to give a lead and to work out in more detail any suggestions put forward by delegates from the

member countries. The economic adviser would by the same token be called in to give his views on the future work of the Organisation and particularly on what should happen to it after the completion of the Marshall Plan.

Staff Problems

I doubt whether it is generally realised how much of the time of the permanent secretary of a Government department or the general secretary of an international organisation is spent on questions of staff. Even the economic adviser, as one of the senior officials in the secretariat, and as the head of a staff of some forty persons, inevitably spent a good deal of time on establishment questions. I should estimate that certainly 10 per cent., and as much as 20 per cent., of my time in Paris was taken up in this way; and I certainly did not reach as high a proportion as some of my colleagues.

Independent Expert

I spent a short time towards the end of my stay in Paris preparing a report on Germany in conjunction with Mr. Jacobsson for submission to the Managing Board of the E.P.U. While this report had no necessary connection with my post as economic adviser, it seemed not unnatural for the E.P.U. to turn to a member of the secretariat for guidance.

Apart from all these duties, I had naturally to organise the research work undertaken by my own staff, to give as much time as I could to the work which they were doing along lines parallel to my own, to keep in touch with the national delegations and exchange ideas with them and to see any economists who were visiting Paris, or myself pay a visit to economists in Geneva or elsewhere.

V

The first business of a good businessman, a good administrator or a good economic adviser is to make a thorough assessment of what is happening. He has to decide what the situation is, how it is changing, and how quickly it is changing. An economic adviser, however, usually differs from his colleagues in business or administration in that he stands outside the stream of action, commenting, warning and persuading but without himself deciding. He may do this officially, and for pay, as a member of some organisation, unofficially and for pay, as a working journalist or lecturer, or unofficially and without pay as a habitual correspondent of the editor of some well-known newspaper.

In any of these circumstances, he is as much concerned to *sell* his advice as to offer it: he is up against a marketing problem. Indeed, it is this problem that tends to condition the organisation of the adviser's staff. Marketing means maintaining close contact with those who seek advice; it means having the necessary standing, personality and professional competence to gain a hearing. But since there are only twenty-four hours in a day it becomes increasingly difficult to combine the work of formulating advice and selling it; of making an assessment and then putting it over; of picking up significant gossip and retailing it. The function of advising tends to disintegrate, the salesmen separating from the assessors, while the assessors of today, the improvisers, fed on yesterday's gossip, separate from the assessors of tomorrow, the planners, fed on a stingy diet of research.

In terms of the organisation that existed in Whitehall in my time, the Chief Economic Adviser had to be skilled in getting the ear of the Chancellor rather than in producing some original idea of his own, and was inevitably guided by the professional economists in the Economic Section or by the expert administrators on the Central Economic Planning Staff. Alone among economic advisers, he was, so to speak, the head of a department, free to exercise his own judgment and to have the last word about what was put to the Chancellor by the planning staff.

In the United States the 'sales' function is complicated by the existence of Congressional committees before which an adviser may have to appear, and by the absence of executive control over Parliament such as the Cabinet exercises in this country. It is not enough in America to convince a Minister and leave him to handle Congress; the economic adviser may be dragged in to explain and defend the policies that he has recommended.

The problem of 'marketing' advice is by no means peculiar to economic advisers. It is, for example, one of the outstanding difficulties of technological research that a large staff of scientists may easily lose touch with other departments and with the general policy of the firm employing them and be unable to present their conclusions to the management in the right form or at the right time. Much of what I have said about economists in advisory positions applies *mutatis mutandis* to other experts and in particular to the head of a research department.

The responsibilities of economic advisers vary and so does the size of their staff. At the Board of Trade I had one assistant who undertook very useful research for me until, discouraged by my failure ever to find time to see her, she sought employment elsewhere. In

Paris I had a staff of about forty. I am in no doubt which of these arrangements was more to my liking. I infinitely preferred the freedom that I enjoyed in the Board of Trade to seek information wherever I chose and, in a sense, call the whole department to my aid, to the task of maintaining a staff in full employment, and, seeking to compose internal squabblings, rid it of the weaker brethren and bring in reinforcements.

Yet I recognise that a staff is often indispensable—and sometimes quite a large one. A man who acts as head of the market research division, or of statistics and intelligence, or of the economic section of a large business or organisation, has certain routine duties that could not be carried on single-handed. Such duties, however, are not, strictly speaking, those of an economic adviser. If the firm wanted to understand national policy or national trends it might either appoint such an adviser or ask some outsider to act as consultant. An outsider who was unfamiliar with what was going on inside the firm and with current proposals would be unlikely to offer the best advice. Hence a firm that wants to shape its course in the light of an adequate understanding of outside affairs would be well advised to rely on the advice of someone on its own staff, whether he was classed as an economic adviser or otherwise.

I had one considerable advantage throughout my 'career' as an economic adviser. I was known to be anxious to end that career as soon as possible. There could be no rivalry with my professional colleagues, no shadow on anyone's prospects of advancement. I went to Berlin in 1945 reluctantly and for not more than six months; I went to the Board of Trade reluctantly and for three to five years; I went to Paris with the utmost reluctance, first for six weeks, then for six months, and finally under heavy pressure for a maximum of twelve months. I was thus throughout in the extremely fortunate position of one whose departure is imminent but unwelcome, and although I did not deliberately trade on this, it was a circumstance that ruled out many possible difficulties and gave me greater independence. I can well imagine that the career of other economic advisers might prove a great deal less happy and untroubled.

If I had to sum up my impression of the work of an economic adviser in a single sentence I should describe it as either highly frustrating, or maddeningly humdrum, or furiously active, or all three at once.

A. K. Cairncross

Glasgow

THE PROGRESS OF MONOPOLY LEGISLATION IN BRITAIN: A COMMENTARY

THERE has been considerable criticism of the effectiveness of the Monopolies and Restrictive Practices Acts, 1948 and 1953,[1] mainly on the grounds that the legislation is too slow in its action and shows poor results for its six years of existence, and that it fails to provide a definition of the 'public interest'.[2] The first two Sections of this article seek to show that these two criticisms, which are connected, are based on misapprehensions concerning the nature of British monopoly legislation at this stage and the function of its main agent, the Monopolies Commission. Sections III and IV comment on the development of the legislation, with special reference to the use of 'general' reports, and Section V attempts an assessment of its enforcement techniques.

I

The crucial point overlooked by critics of the legislation is that it may be impossible to say, *a priori*, what the public interest is for any given situation involving monopoly or restrictive practices. There is a tendency to take too readily as the norm in this field the legislation of the United States, which defines the public interest at the outset in the general rule that any 'attempt to monopolise, or combine and conspire with any other person to monopolise', is illegal; and in its application leaves a relatively small area of discretion to the courts.[3] For instance, despite this country's complete lack of direct experience of monopoly control, *The Economist* suggests that the 'politician' is the legislator and should 'establish the concept of the public interest that the Commission uses as standard', and not the Commision itself. That is, the Commission should be a sort of judicial body interpreting

[1] For description and comment on the legislation see Sir Henry Clay, 'The Campaign against Monopolies and Restrictive Practices', *Lloyds Bank Review*, April 1952; Ruth Cohen, 'Reports of the Monopolies Commission', *Economic Journal*, March 1953; P. H. Guenault and J. M. Jackson, 'British Monopoly Legislation in Practice', *Canadian Journal of Economics and Political Science*, May 1954; Alix Kilroy, 'The Task and Methods of the Monopolies Commission', *Manchester School*, January 1954; and Alex Hunter, 'The Monopolies Commission and Economic Welfare', *Manchester School*, January 1955.

[2] *The Economist*, 6th July 1953, *Manchester Guardian*, 16th February 1953 and 25th September 1954, *The Observer*, 30th January 1955, and the *Final Report (Industrial Engineering)* of the Anglo-American Council on Productivity reflect what appears to be the prevailing feeling on the legislation.

[3] Cf. Donald F. Turner, 'The American Antitrust Laws', *Modern Law Review*, May 1955, p. 245.

a given law, not the law-maker itself. This approach to the control of monopoly, through a comprehensive definition of its illegality, does not lack influential critics even within the United States.[4] In any case we should be on our guard against the mistakes involved in transferring a particular technique to a different economic environment. There are a number of considerations which suggest that the British approach to monopoly control should have more regard for indigenous conditions.

The gross national product of the United States in money terms (1953) is nine times that of the United Kingdom at current rates of exchange. Hence, relative to Britain, large business units are not so likely to lead to undue concentration of economic power in terms of control over markets. And we find that, despite the immense size of the larger American firms, the degree of concentration in British markets is markedly greater than for the United States.[5] Moreover, Britain participates in international trade to the extent of 21 per cent. of its gross national product, whereas the United States has less than 5 per cent. in external trade; this further reduces the relative size of British home markets, and in addition induces intense specialisation of product, and concentration, in many export trades. These two facts taken together mean that some degree of large-scale monopoly may be both inevitable and desirable in certain industries in Britain. For instance, in order to secure high standards of efficiency in steel, it is necessary for companies already large to pool their resources in The Steel Company of Wales for the construction of a Margam or Trostre production unit. In the electric lamp industry, in order to obtain large-scale economies comparable with American practice, the two giants of the industry, G.E.C. and B.T.H., had to combine to buy and operate two continuous-production glass-bulb machines capable

[4] Cf. J. A. Schumpeter, *Capitalism, Socialism and Democracy* (London, 1947), Chs. 5-8, and J. K. Galbraith, *American Capitalism* (London, 1952), Ch. 10.

[5] Strict comparisons of the degree of concentration are not possible. The best-known British figures calculate market concentration by the percentage of output or employment for the *three* largest firms of an industry; in the United States the methods are various but usually the *four* largest firms are chosen as the basis of calculation. This difference makes for understatement of the British concentration-ratios. It appears, on examination, that apart from such notable exceptions as aluminium, automobiles and canned meat for the United States, Britain has a much larger range of important industries with high concentration-ratios. Such industries include petroleum refining (82 per cent. of the output from the three largest firms), cement (76 per cent.), cigarettes (88 per cent.), rubber tubes and tyres (76 per cent.), chocolate (85 per cent.), heavy electric motors (70 per cent.), and dyes and dyestuffs (82 per cent.). Cf. Leak and Maizels, 'Structure of British Industry', *Journal of the Royal Statistical Society*, 1945, Parts I-II, and *Monograph No. 21 of the Temporary National Economic Committee* (U.S.A. Govt. Printing Office, Washington, 1941).

of supplying more than the combined home and export market.[6] Other industries—motor cars, electric cables and heavy electrical engineering—exhibit a trend towards concentration for what appear to be similar reasons.

Economic circumstances which differ to such a degree inevitably influence the approach to legislation. We find that, despite its smaller concentration-ratios, anti-trust cases in the United States have come more and more to interpret as a significant test of monopoly power the share of a market held by a single firm or a small group of firms; and the decision usually goes against such firms, as in the aluminium, tobacco and United Shoe Machinery cases, although possibly no evidence of collusion, fighting brands, or other restrictive or monopolising tactics has been put forward. Professor E. S. Mason suggests that, no matter how efficient a firm is, it is 'becoming increasingly dangerous . . . to acquire a predominant share of a particular market. And there is no doubt that this is having a significant effect upon the calculations of large firms.'[7] Such a policy could not be acceptable under British conditions: in many industries, especially export industries, international standards of productivity dictate that there can be only a few firms, since the economic unit is large relative to British home markets. No workable definition of the public interest can ignore the importance of this factor to the British economy.

There are other factors which are important in the context of monopoly policy. Business ideology must be considered. In the American community there is respect for the underlying philosophy of the anti-trust laws; they are visible assurance that there is scope and opportunity for small businessmen and that positions of considerable personal economic power will be suitably curbed. In addition it becomes a moral obligation on the ordinary businessman to compete intensively.[8] Consequently, what appears to be an irrational rejection of the massive efficiency of such large firms as A.L.C.O.A. and the tobacco companies in favour of small market-shares may be justified by the pervasive influence of the anti-trust laws on the morale and behaviour of industry in general. The industrial engineering team which visited the United States recently was strongly of the opinion that effective anti-trust legislation is a major factor in American

[6] Cf. Kilroy, *op. cit.*, and the *Electric Lamps Report* of the Monopolies Commission.

[7] *Readings in the Social Control of Industry* (ed. American Economic Association, 1949), p. 225; and the *Manchester Guardian*, 14th July 1953. Cf. Turner, *op. cit.*, pp. 250-53.

[8] Cf. Heflebower, 'Monopoly and Competition in the United States', in *Monopoly and Competition* (ed. E. H. Chamberlin, for the International Economic Association, 1954), p. 113, and Turner, *op. cit.*, p. 253.

business efficiency. Undoubtedly Britain could profit from a similar development in attitude towards business competition. But with our relatively concentrated economy and our background of depression, redundancy schemes, 'gentlemen's agreements', etc., it is doubtful if the conditions exist for an American interpetation of all-out competitive behaviour.[9]

Considerations such as these are reflected in Parliament's cautious approach to Britain's monopoly problem. Speaking in the House of Commons on 23rd July 1952, the President of the Board of Trade explained the method of the Monopolies Act in these terms: 'In this matter, as in many other matters which we have tackled, we have preferred an objective and an empirical approach. We do not assume that a trade combination is necessarily evil. What we say is that we want to have a very good look at it. We want to see what it is doing, how it is doing it and what are the practices that have been carried on, and to examine whether they are in fact against the public interest or not. We recognise that the effect of a restrictive practice on the public interest may be different in different industries and that what may be harmful in one case may not be harmful, or might even be helpful, in another. In our method the so-called restrictive practices are judged in the context of particular industries.'

Summing up, it appears that if anti-monopoly policy in this country seems to be slow in producing results, there is good reason for this. The spirit of the legislation is not 'ideological' as in America; as befits our circumstances it is empirical or 'rational' in approach. The present stage should be regarded as a preliminary, and necessary, process of fact-finding, of defining the public interest by what has been described in the debates on the Acts as 'an accumulation of case studies'. Fact-finding is inevitably a slow business—in the beginning at any rate—in contrast to the apparently good results which could be obtained, in terms of court cases, through enforcement of a statute. Lengthy, careful investigation into the nature of the public interest is in our best long-term interest, and it is well to be sure of our facts before passing comprehensive legislation which will have significant consequences for industry.

II

It is unlikely that Britain will ever have such comprehensive legislation as the American Sherman and Clayton Acts; even after the

[9] Another factor influencing policy may be the stage of economic development. Governments of under-developed countries may be compelled to encourage considerable concentration of economic power in order to have steel mills, aluminium smelters, railways, marketing schemes or simply higher productivity, cf. G. C. Allen, 'A Note on Monopoly and Economic Progress', *Economica*, November 1953, pp. 359-61.

most extensive investigation it will probably prove impossible to define the public interest in terms of any single principle or set of principles. This is indicated by study of the reports on individual industries which the Monopolies Commission has already published. They reveal that, for a large number of cases, indefinite continuation of the present system of *ad hoc* judgments, based on the merits of the individual case, is likely to prove necessary: practices which are generally undesirable may, in certain circumstances, be in the public interest. Some brief illustration of this important point may be given.

It is clear that price rings do not invariably have the disapproval of the Commission (though it would oppose collective enforcement of them). In a number of significant cases the Commission unanimously agreed to permit a modified form of price ring to remain. The reasons for these decisions are interesting. In one case representations were made that price competition would tend to lower the quality standards of the industry (*Electric Cables Report*). In another case the collective performance of the manufacturers in raising productivity and in improving the quality of their product was the reason for granting this price-fixing concession (*Insulin Report*). Probably the factor which most influenced the views of the Commission was that these price rings were, among other things, the vehicles for policies of collective research and sharing of manufacturing information and patents. The criteria upon which the Commission appeared to lay most emphasis were that such arrangements should help 'a rapid and comprehensive exchange of information about new developments . . . , the more rapid application of new discoveries' and 'a progressive and substantial reduction in prices' (*Electric Lamps, Electric Cables* and *Insulin Reports*). Another circumstance which can affect the nature of the public interest is that the products of the monopolised industry may be purchased by very powerful buyers. Rather than use the machinery of Government supervision, the Commission very sensibly employed the 'countervailing power'[10] of the buyers in such situations. It recommended that the British Electricity Authority, the G.P.O. and the Admiralty (which between them buy the greater part of certain products of the cable industry) should cost the factories of the Cable Makers Association in order to place themselves in a position to negotiate fair prices with the cable manufacturers (*Electric Cables Report*). But the possibility of exercising 'countervailing power' through the agency of a nationalised industry, or any other large, well-organised buyer, is comparatively rare. Finally, even where it had been conclusively shown that one firm had effectively created a

[10] Cf. J. K. Galbraith, *American Capitalism*, London, 1952.

monopoly by means of restrictive practices preventing the entry of new firms, the Commission recommended that, in effect, there should be no change in the structure of the industry (*Matches and Match Machinery Report*). This case bears on a point already made in Section I. The Commission felt unable to introduce competition by breaking up the existing firm since it appeared, from the experience of several foreign countries, that 'monopoly is probably the natural organisation of this trade' and would reassert itself. Nor did the Commission feel inclined to disturb the trading agreement with the Swedish match monopoly, by which the British and other markets were allocated, because it feared that the British industry would be damaged by competition from the former partner. Its main recommendation[11] was the rather defeatist policy of Government price control for the industry.

Although it may be impossible to define the public interest generally to cover all possible cases, this is not to say that it is impossible to define it in certain limited circumstances. One practice on which in every case the Commission came to an unfavourable verdict was that of restricting entry into an industry; this has given rise to the first general report on the restrictive practices of trade associations.[12] But on the whole it is clear from the Commission's industrial reports that the public interest can never be based on any simple set of concepts, and that before any definitive step is attempted a careful sifting of the facts is necessary. It must also be concluded that the evidence[13] provided by the Commission's work supports the wisdom of choosing —at least in the first instance—a discretionary type of legislative approach to Britain's monopoly problems.

[11] The matches case is a specially good illustration of the difficulty of deciding, *a priori*, the public interest in a British context. This *Report* also had a minority recommendation. It suggested abolition of the trading agreement and, to replace price control, the setting-up of a Government buying agency to purchase all home-produced and imported matches. The agency was intended to use its monopsonistic powers to allocate orders competitively and encourage independent producers. The minority admitted the riskiness of its 'drastic solution' but urged that the long-term public interest demanded competition and efficiency with the possibility of expansion, rather than a guarantee of the *status quo*. The minority view has some degree of support by the Government. The President of the Board of Trade has stated that he disagrees with the price-control recommendation; he believes that 'it is most desirable that there should be a measure of competition in the industry. This would be the most effective safeguard of the public interest'. Precisely what steps will be taken to ensure competitive conditions have not so far been divulged (*Annual Reports on the Monopolies and Restrictive Practices Acts*, 1953 and 1954).

[12] See Section III.

[13] For detailed treatment of the points of this Section see Hunter, *op. cit.*

III

The critics have overlooked the fact that monopoly legislation is at present passing through an essential preliminary fact-finding stage designed to discover the nature of the public interest in this country. They further overlook the probable effect of certain developments which have been taking place within the existing legislative structure. The major development is the use of general reports authorised under Section 15 of the 1948 Act. Section 15 permits the Board of Trade to demand at any time from the Commission a report on the 'general effect on the public interest of practices of a specified class', provided that the Board is 'satisfied that practices of that class have been dealt with, in relation to goods of particular descriptions, by previous reports of the Commission and that it is expedient that the views of the Commission in relation to practices of that class should be formulated in a general report'. No provision is made in this Section for the Commission to make recommendations or to give any 'competent authority' powers to remedy the conditions disclosed by a general report. Taken at face value, Section 15 appears to provide for little more than an occasional essay from the Commission for the Board of Trade summarising its experiences of certain important practices. In fact, two factors have transformed the Section into perhaps the most crucial part of the legislation. First, the Commission has not been content to write a summary report based simply on its experience of previous industrial reports but instead has undertaken (or has been directed by the Board of Trade) to make what can only be described as major surveys of British industry in respect of the 'specified practices'. Secondly, since the 1948 Act provides no specific remedial powers under Section 15 (and in any case the Statutory Order authorised for industrial reports is not a very appropriate device for this particular task), prohibition by general statute appears to be the obvious method for 'dealing with the conditions to which the Act applies'. The effect of these two factors is to make all general reports potential landmarks in the development of monopoly legislation in Britain: each will constitute a major step in marking out the nature of the public interest and the area of monopoly control. An assessment of the first general report of the Commission, on *Collective Discrimination,*[14] will help to make clear this point.

The background to this *Report* is important in judging its scope. It is the restrictive practices of trade associations, protecting and

[14] Cmd. 9504, *Collective Discrimination: a Report on Exclusive Dealing, Collective Boycotts, Aggregated Rebates and other Discriminatory Trade Practices* (H.M.S.O., London, 1955).

encouraging the general reluctance of their members to compete with any intensity, which, rather than the manipulations of large-scale monopolists, probably constitute the major problem[s] of the British economy in this field. The content of the Commission's previous reports reinforces this view. Of the ten reports published only one, *Matches and Match Machinery,* has been concerned with the activities of a single dominant firm. The others dealt with the restrictive practices of trade associations. Even such giants of the electrical industry as Associated Electrical Industries and the General Electric Company operated their electric lamp sales through the exclusive-dealing practices of the appropriate trade association; and Imperial Chemical Industries became a member of the Association of Dental Manufacturers and Traders ' because this was the only way in which they could market their [denture materials] satisfactorily '. Further, the techniques by which trade associations protect their members account for the largest single category of recommendations in the Commission's reports.[15] Other committees of inquiry have at various times emphasised the importance of this problem[16]; for instance, resale price maintenance, a source of only one form of collective discrimination, was estimated in the *Lloyd-Jacob Report* to cover at least 30 per cent. of retail goods.

It is a weakness of the Commission's general *Report* that it contains no estimate of the total value of goods covered by collective-discrimination practices. The scope of the inquiry is indicated simply by a list of the goods concerned (76) and the number of trade associations admitting to practices[17] which come within the reference (164 out of a total of 290 consulted). Evidence, mostly written, was taken from over 200 concerns and organisations and from a number of individuals. There is no detailed or comprehensive description of the arrangements in any particular trade; all practices are described in a general fashion, and only a few examples are given.[18] Also, the Commission says of its evidence that it comes mainly from those who operate the practices and not, for instance, from those businessmen who are opposed to them or from consumers whose interests could not

[15] See Hunter, *op. cit.*, pp. 25-31 and Appendix.

[16] Cmd. 662, *Fixed Retail Prices* (H.M.S.O., London, 1920); Board of Trade *Committee on Restraint of Trade* (H.M.S.O., London, 1931); and Cmd. 7696, *Resale Price Maintenance* (Lloyd-Jacob Committee) (H.M.S.O., London, 1949).

[17] Another peculiarity of Section 15 of the Act is that it gives none of the investigating powers (inspection of documents, agreements, etc.) available for industrial inquiries.

[18] On the other hand, in the *Report,* the Commission frequently emphasises the findings of the appropriate industrial reports (*Dental Goods, Rainwater Goods, Electric Lamps, Electric Cables, Insulin, Imported Timber* and *Semi-manufactures of Copper*).

easily be consulted. Consequently, its conclusions are ' broad general judgments taking into account both the views of those who have come before us and our own assessment of the effect of the practices on those who are not in a position to formulate their views so precisely '. That is, the judgments as to the interest of the general public are to a large extent qualitative. But it is also clear that they were formed on the basis of a wide range of factual material: evidence was received from nine trade associations in the chemicals and allied trades, sixteen in electrical engineering, ten in vehicles, twenty-six in other metal goods, ten in textiles, eight in printing and publishing, etc.[19]

In its analysis of the ' specified practices ' the scope of the *Report* turns out to be wide indeed. The Commission's terms of reference were concerned broadly with agreements to discriminate against certain specified or defined persons by withholding supplies, or supplying them only on terms less favourable than those allowed to other persons, and with agreements to offer aggregated rebates. It was concerned, that is, with the practices popularly known as ' collective boycott ', ' exclusive dealing ' and ' aggregated rebates '. What the Commission has done is to interpret ' discrimination ' in the widest possible sense and make the terms of reference cover all ' *collective* arrangements or agreements . . . *requiring* the parties to discriminate in their dealings with other persons '.[20] This procedure involves the Commission to a surprising extent in practices outwith the scope of its reference. Notably it has a great deal to say on the practices of resale price maintenance and price rings. The *Report* carefully points out, however, that these subjects are brought in, not in order to pass judgment on them as such, but to assess the effect of *agreements* concerning the practices. For example, ' we are not asked to say whether the [individual] maintenance of resale prices is a good thing; we are asked whether *collective agreement* to adopt or enforce resale prices is or is not in the public interest '.[21]

From an ' almost bewildering variety ' of collective agreements the *Report* distinguishes six categories each of which may be operated separately or, more usually, in association with others:

Category I: *Collective Discrimination by Sellers* (in the form of preferential discounts or exclusive selling);

Category II: *Collective Discrimination by Sellers in return for Exclusive Buying* (exclusive dealing arrangement);

[19] Paras. 16-25.
[20] Para. 7 (Commission's italics).
[21] Para. 26.

Category III: *Collective Agreements to adopt Conditions of Sale, notably Resale Price Maintenance;*
Category IV: *Collective Agreements to enforce Conditions of Sale, notably Resale Price Maintenance;*
Category V: *Collective Discrimination by Buyers* (exclusive buying);
Category VI: *Agreements to pay Aggregated Rebates.*

Agreements are usually arranged between the group (normally a trade association) and the individual buyers and sellers; or they may be arranged between the respective trade associations. The selection of the favoured buyers or sellers is by definition (a certain status in the trade) or more precise arrangements, 'approved lists' or 'stop lists', may be drawn up by the associations concerned.

The general effect of all six practices (with exceptions in certain special circumstances) was declared to be against the public interest. The essence of the Commission's case was contained in the 'one clear common feature of them all . . . that they impose a collective obligation' to adhere to the various trading practices. The fundamental questions which the Commission emphasised throughout the *Report* were 'the need for' a collective obligation and the 'effects of such an obligation'.[22] For example, numerous arguments supporting Category I agreements were discussed which demonstrated the necessity for collective discrimination in favour of certain distributors in order to protect and pay for the special services and facilities they provided. The Commission questions the need for this collective agreement by pointing out that similar types of service are provided in some trades without such arrangements or, alternatively, through the use of 'recommended lists' of qualified distributors. It also shows that special technical after-sales service can be adequately covered by 'sole agency' agreements between individual seller and distributor. It is then suggested that a uniform standard of distribution service, which is a justification of many of the agreements, is not necessarily the best arrangement from the point of view of either the producer or the ultimate consumer, both of whom, for their separate reasons, may desire several different classes of service at different prices. Finally the *Report* examines the results of such collective agreements and finds that, varying with the arbitrariness of the definition or list of approved buyers and the severity of administration, there is imposed 'a rigid pattern which restricts innovation and impedes the development of new and economical methods of distribution'.[23] (The Com-

[22] Para. 232.
[23] Paras. 80-91.

mission also quotes detailed and concrete examples from six of its earlier reports.)

Arguments in favour of agreements for resale price maintenance (Category III) are rebutted in the same way. The Commission again shows that a set standard of distributive service may not necessarily be required, that resale price maintenance is open to the *individual* producer if he really requires it, and that the principal purpose of resale price maintenance agreements is not to benefit the consumer or the producer so much as to protect the distributive trades.[24] The main arguments in support of aggregated rebates also fall by the wayside. Aggregated rebates, it is argued, are simply a special form of discount for quantity dealing. But, as the *Report* shows, they remove the price incentive to concentrate orders on one or two firms and instead cause a buyer's orders to be spread over the group. Hence the rebates cannot reflect economies of scale; and in fact economies of scale could be more easily secured through the normal quantity rebates individually offered by sellers. Aggregated rebates turn out to be a powerful price incentive designed to make buyers discriminate in favour of one group and thus to impede competition from independent sellers.[25]

The opinion of the Commission was unanimous on all categories with one important exception. In Category IV—agreements to *enforce* conditions of sale—there was a minority dissent by four Commissioners based upon a special interpretation of the enforcement conditions of resale price maintenance.[26] The minority members were of the opinion that agreements to *adopt* resale price maintenance operate against the public interest. On the other hand they believed that manufacturers who had on their own initiative chosen resale price maintenance should be permitted to make collective arrangements among themselves to enforce their individual conditions of sale (presumably by means of 'stop lists' and 'approved lists'). The justifications for this suggestion are: enforcement of resale price maintenance by ordinary legal procedure is, in Britain, an uncertain and expensive affair, whereas collective enforcement is undoubtedly a most effective device and one which is inexpensive in time and litigation; and prohibition of collective enforcement of resale prices would tend to favour the big manufacturer, who can, to a large extent, enforce his own arrangements by withholding supplies. Given the existing right to prescribe resale prices it is 'illogical' that manufacturers should

[24] Paras. 136-147.
[25] Paras. 202-213.
[26] Paras. 261-9.

not be permitted the most effective means of enforcement consistent with the law.

This is a proposal which, in the abstract, appears to have merit. But one cannot avoid the pessimistic conclusion that in practice, if manufacturers were permitted to enforce resale price maintenance, even were the decisions individually arrived at, many of the objections of the *Report* would still stand. An agreement to enforce retail prices collectively can, tacitly, become an agreement to enforce many other practices (including common prices). Distributors' associations would inevitably put pressure upon *all* producers in an industry (by, for example, 'recommended lists' of sellers) to make use of this power. Consequently, there would again be a lack of price competition among both suppliers and distributors, lack of flexibility in the operation of resale price maintenance, resistance to such innovations in distributive methods as the self-service shop, etc.[27] Such a privilege could easily become the vehicle for numerous tacitly arranged restrictive practices and would be a serious breach in the system of prohibition proposed by the majority of the Commissioners.[28]

The section on the general conclusions of the *Report* brought out those points which had particularly impressed themselves upon the Commission.[29] The collective selection of favoured traders, for instance, tended to lead 'to the creation of a privileged group subject to relatively little outside competition'. Approved lists could be arbitrarily drawn up and severely interpreted in favour of the approved traders; and admission to the lists was often limited 'where potential competitors have an effective voice in the selection'. Where the amount of discrimination and the criteria for admission were reasonable (such as suppliers might adopt on their own account) 'the necessity for obliging suppliers to conform to them was not apparent and any possible advantages to the public interest could be secured by means of arrangements which might be recommended to the suppliers but would not be binding upon them'. On resale price maintenance the Commission remarked that systems of collective enforcement had become so effective in the present century 'as to leave little freedom to manufacturers or distributors in choosing the trading methods and price policies they will adopt, or to consumers in exercising a preference between better service at a higher price and a lower price with less service'. But probably the factor which most impressed the Commission in all of these collective arrangements was the extent to which restriction was placed upon experiment and innovation. It is

[27] Cf. Paras. 169-172.

[28] Cf. the Lloyd-Jacob Committee's conclusions on the enforcement of resale price maintenance.

[29] Paras. 232-240

notable throughout the *Report* that questions of profit or earnings in connection with restrictive practices are rarely raised (although it is suggested here and there that prices might be lower in the absence of agreement). Undoubtedly, in the view of the Commission, the main questions at issue in this matter of trade association practices are not questions of income, or even of prices, but rather questions of how best to abolish the systematic protective policies of British industry, or at least make them less effective. That is, the Commission is primarily concerned with the rate of economic progress in this country, with the speed at which innovations can be introduced, and resources made to shift, against the opposition of vested interests.[30]

The *Report* includes suggestions on the type of legislation required to implement its conclusions. Two alternatives were considered: (*a*) registration of all agreements covered by the terms of reference of the *Report*, the registrations to be subject to individual scrutiny and those found to operate against the public interest to be prohibited; and (*b*) outright prohibition of all agreements covered by the reference, but with provisions for exception in certain circumstances. A majority group of seven recommended outright prohibition. The minority of three, in a Note of Dissent, proposed the registration procedure, remarking of prohibition that 'the evidence and information put before us do not in our view justify so sweeping a condemnation'. An illogicality can be detected here. If the information and evidence available were not adequate, then the minority should have dissented or abstained from the findings that the practices were in general[31] against the public interest. On the other hand, if the conclusions were substantially correct (and the minority in fact dissented only on a rather special interpretation of Category IV), there is little point in setting up the registration procedure with its reviewing authority. It would be a course of action equivalent to appointing another Monopolies Commission to go through the whole question again, case by case, meanwhile leaving Government policy undecided for the vast majority of firms—a 'cumbersome, slow and unfair' procedure.[32] In any case, it appears only reasonable that trade groups desiring to operate practices which are, to say the least, open to suspicion, should shoulder the burden of providing evidence that they are operating in the public interest instead of leaving this task to the Government. Neither should it be overlooked that the circumstances under which exemptions could

[30] Cf. Hunter, *op. cit.*, pp. 38-9.
[31] See p. 207.
[32] The majority view of the registration scheme, para. 245.

be claimed have a potentially wide range of application.[33] Compared with legislation in Canada and the U.S.A.,[34] for instance, they provide a considerable margin of discretion against the danger of 'sweeping condemnation'.

One must conclude that the first of the Section 15 reports of the Commission makes a very considerable advance in defining the public interest,[35] and it is possible to look forward to similar steps in the future. The Board of Trade has already decided to send the Commission another Section 15 reference on the important and widely practised arrangements of 'common prices' and 'level tendering' (or price rings).[36] Other practices which could conceivably be examined under Section 15 of the Act include agreements to have market quotas, to have redundancy schemes, and to operate restrictive patent-policies. Legislation has been moving forward, at the Commission level, at greater speed than the critics have been willing to concede, and there is some certainty that the public interest is being correctly, and not over-hastily defined. Britain may never have a completely comprehensive definition of the public interest but some elements of 'Shermanism' may be acquired by instalments.

IV

The other development which will increase the intensity of the campaign against monopoly concerns the organisation and work of the Commission itself. The output of the Commission, in terms of reports over the first five years of its life, undoubtedly appears rather low. It averaged two and a half reports per annum prior to 1953,[37] a small quantity in relation to the scope of the problem, even allowing for the acquisition of experience. The obstacle here was not the perma-

[33] The exceptional circumstances suggested in the *Report* were:
(*a*) 'Where consumers are not able to judge the standard of service which it is in their interests to demand from distributors' (risks from faulty insulation, maintenance of technical commodities, etc.).
(*b*) Where a restrictive arrangement 'is designed to protect an industry of strategic importance'.
(*c*) Where the prohibited practice supports a common-price system which is in the public interest.
(*d*) Where the agreement permits smaller concerns to compete effectively with large concerns which are operating restrictive practices.

[34] Cf. Ch. 8 of the *Report*.

[35] But see Section V for reflections on the enforcement aspects of this *Report*.

[36] The Commission will have ample experience on which to base this new Section 15 inquiry since almost all industrial reports to date have been concerned in some degree with this practice; and a number of recent references from the Board of Trade are for industries in which price-fixing is a feature.

[37] See the *6th Report of the Select Committee on Estimates*, 1952-53, p. ix. On the other hand, judging by delays in putting the recommendations of the Commission into effect (calico printing and matches) there may also be a bottleneck at Ministerial level.

nent investigating staff of the Commission, which could have expanded in order to undertake more work, but the limiting characteristics of the Commission itself defined by the 1948 Act. Two factors operated here. First, the Commission had a maximum of only ten members; secondly, since it was felt that the Commission should be representative of lay opinion, a form of jury sitting on industry,[38] most of the Commissioners were part-time members and all were required to give their consideration to each report. Individual members, or parts of the Commission, were not permitted to pass judgment on the facts of a case. Hence the slowness of the Commission in turning out reports; because of these limitations it met only once a fortnight and it could handle the finishing stages of only one report at a time.

The Act passed in July 1953 considerably accelerates the Commission's work.[39] The maximum number of Commissioners now permitted is twenty-five, and, although most of them remain part-time members as before, the chairman and his two deputies are on a full-time basis. The enlarged numbers permit improved machinery at the Commission level, with the chairman playing a strategic rôle. He may organise Commissioners in groups of not less than five, and each of the groups is authorised to conduct investigations and make reports, whereas formerly the whole Commission was required. The reports of such a group do not even need endorsement by the whole Commission, and only a two-thirds majority of the group is required to put forward recommendations for action by the appropriate Government department. On the other hand, the chairman may, presumably in important cases such as the present Section 15 investigation, require larger groups, or perhaps the whole Commission, to take part in an investigation and make the report. What has happened since the 1953 Act was passed and a new full-time chairman appointed, is that the number of Commissioners has increased and appears to have stabilised itself at sixteen. Seven groups, most of them composed of eight or nine members, have been formed to handle the industrial investigations. Ten members served on the *Collective Discrimination* inquiry, and are now presumably occupied with the new Section 15 reference. As a result of the reorganisation, at any

[38] The composition of the Commission, until the 1953 Act, was two businessmen, two university economists, two lawyers, two retired civil servants, one accountant and one trade union official. The secretary of the Commission is a Board of Trade official. In 1955 the composition is four businessmen, two university economists, five lawyers (including the chairman), two accountants and three trade union officials.

[39] The 1953 Act is not intended to do any more than this; the empirical approach to monopoly legislation remains unchanged by the Conservative Government (Monopolies and Restrictive Practices Commission Act, 1953, 1 and 2 Eliz. 2, Ch. 51).

given time each Commissioner is serving on at least four, and perhaps five, inquiries simultaneously, but the chairman is a member of all eight groups. To serve on four or five inquiries must involve part-time Commissioners in a very considerable expenditure of time and effort. On the other hand, it seems certain that their exertions will result in a large increase in the output of the Commission. This supposition is supported by the statement in the 1954 *Annual Report* that 'the Commission hopes during the course of 1955 to complete reports on most of the matters before them on the 1st January' (*i.e.* eight reports including the major *Collective Discrimination Report*).

The Commission's ability quickly to cover a comprehensive sample of monopolistic restrictions is now greatly improved. The 1953 Act appears to constitute another very useful advance in the anti-monopoly campaign in Britain.

V

The Monopolies Commission would reach a peak of achievement if its activities began to persuade, or intimidate, the general run of industry into adopting new codes of conduct in relation to restrictive practices; that is, if the legislation, as all good legislation should, became self-enforcing to a considerable degree. Unfortunately, this is not likely to occur without a prior demonstration of force on the part of the appropriate authorities. Where critics of British monopoly legislation do have grounds for complaint is in this fact that the enforcement aspect of anti-monopoly policy has not been developed. This is a defect which may be corrected as experience and the number of cases increase, but analysis of enforcement techniques to date does not suggest any great promise for the future.

Until now enforcement has consisted of statutory orders made against specific industries. The making of these orders can come about in two ways. First, the Monopolies Commission may recommend that an order be made to prohibit certain practices within an industry. This recommendation may be taken up by the appropriate Government department (the Ministry of Health for dental goods, the Board of Trade for matches, etc.). In such cases the statutory instrument must receive the assent of both Houses of Parliament. On the other hand, the Government, 'whatever the recommendation, if any, made by the Commission', may be the source of the statutory order. That is, the Government, where the Commission makes no recommendations, may itself create an order if it believes that the facts contained in the report justify such action; or the Government

may ignore the recommendation of the Commission; or it may substitute for the Commission's recommendation an order of its own choice. Contravention of these orders is not an offence in criminal law. To enforce the conditions of the order the appropriate authority may bring a civil action seeking an injunction on the prescribed practices or 'any other appropriate relief'. The same course of action, to seek an injunction or damages, is open to any private person harmed by the continued contravention of the prescribed practices. Only in the event of failure to obey a court's directions does the possibility of fine or imprisonment arise, and this is for contempt of court.

It can be seen that enforcement of the Act is mainly in the hands of the Government. The Commission's power is limited to making recommendations which may be altered at the Government's discretion. In spite of its experience and knowledge, the Commission is not empowered to investigate cases of contravention of such statutory orders; its post-report activities are confined to re-investigating cases where the parties concerned have agreed voluntarily to alter their trading or membership regulations. But it appears that no adequate mechanism has been created within the appropriate departments, or the Board of Trade, to investigate the relevant industries and, where necessary, take action in the courts.[40] The lack of investigation and prosecution in the 'follow-up' procedure means that there is little real bite to the legislation and that it is unlikely to create any great concern or respect for anti-monopoly policy in business circles.

There are two possible reasons for the absence of any drive to enforce the legislation by means of prosecution. The first turns on the principle involved in the application of statutory orders. So far there has been only one case in which a statutory order was applied; it was the result of a recommendation in the first of the Commission's reports, on the *Supply of Dental Goods,* and was for the prohibition of exclusive-dealing and collective-boycott practices in that industry. A minority group of the Commission (a businessman and a lawyer) opposed this particular recommendation on the grounds that these practices were known to be in widespread use and that, consequently, it would be unfair to pass *ad hoc* legislation against one very small sector of the economy: general legislation to cover all industry would be appropriate. This argument against the use of statutory orders has been voiced more than once,[41] and appears to have inhibited the

[40] Evidence in the *6th Report of the Select Committee on Estimates,* 1952-53, pp. 13-16; also Guenault and Jackson, *op. cit.*

[41] Cf. Sir Henry Clay, 'The Campaign against Monopolies and Restrictive Practices', *Lloyd's Bank Review,* April 1952.

Commission from recommending further applications of statutory instruments, although in some subsequent reports precisely the same practices reappeared. Perhaps the Commission is now reconciled to awaiting the passing of general legislation against what it itself states to be practices operated ' over a wide range of industry '.[42] If this is so, judgment on its part in the enforcement policy of the Act must temporarily be suspended. But the reluctance to apply *ad hoc* prescription to practices which are known to be widely used in industry fails to explain why statutory orders are not used against those practices which are of relatively infrequent occurrence. For instance, covenants designed permanently to exclude certain properties from an industry (calico printing), quotas to allocate market shares to members of a trade association (electric lamps and electric cables), the use of fighting brands, etc., could be prohibited by statutory order. This point brings us to the second, and probably the more important, reason why there appears to be insufficient effort put into the enforcement of the legislation.

There has developed, as an alternative to the statutory order, a technique whereby trade associations and firms are *recommended* to revise certain of their practices voluntarily—to alter the association's membership regulations as applied to collective-discrimination systems, to forbear from developing restrictive patent-policies, to cancel restrictive covenants and trading agreements, etc. It is a process of self-correction carried out in consultation with the appropriate Government department. This approach is now invariably used, and in the absence of further statutory orders it must be assumed to have become, for the time being at any rate, the main enforcement instrument of the legislation. As such it calls for comment.

As a technique of enforcement this process of self-correction must appear incrediby mild to most observers in view of the alleged seriousness of monopolistic restrictions in this country. It works sufficiently well in relation to the industries actually involved in the reports; trade associations appear to co-operate in a satisfactory manner (although individual firms may not).[43] But this is not enough. When the legislation was passed through Parliament it was hoped, and expected, that the findings of the first sample of the Commission's investigations would have a considerable indirect effect on other industries, causing them to revise their own practices. There is no evidence that this has been the case. In fact, as a former secretary

[42] Cf. *Dental Goods Report*, paras. 233-4, and the *Lloyd-Jacob Committee Report*.

[43] *Annual Reports on the Monopolies and Restrictive Practices Acts*, 1952 and 1953

of the Commission has noted,[44] the activities of the Commission, although its findings are mentioned in the press, have received relatively little attention from industrialists. The self-enforcing characteristics of monopoly legislation in Britain have so far been conspicuously absent.[45] It must be said that this defect is one which, judging by the experience of other countries, could be corrected only by strenuous measures in the courts.[46]

Now that the fact-finding activities of the Commission are well developed it appears appropriate and timely that official energies should be directed towards the enforcement aspects of the legislation. Much could be done in this direction simply through resuscitation of the powers of the 1948 Act to pass statutory orders. The passing of an order does not require involved parliamentary procedure, and the authority and influence which attach to the statutory instrument should not be neglected. Its publicity value, and therefore its indirect effect on other industries, is probably much greater than that of the discreet technique of consultation and self-correction, and one or two prosecutions would add a salutary threat to the procedure. But this involves improvement with nothing fundamental added. The authorities should now be thinking in terms of an enforcement agency, either working alongside the Commission or attached to the Board of Trade, which would be devoted to the task of seeking out infringements both of statutory orders and of any general legislation which may be passed, with a legal branch for the well-publicised pursuit of recalcitrant cases in the courts. The ideal vehicle for initiating such a policy would have been the majority recommendation of the *Collective Discrimination Report*.[47] Unfortunately, the radical nature of the majority proposal appears to have been too much for the Government, and instead of general prohibition of the practices it intends to adopt a variation of the minority's registration procedure.[48] It intends to undertake the registration, one by one, of all

[44] Kilroy, *op. cit.*, p. 38. On the other hand the recent *Collective Discrimination Report* has aroused some attention and apprehension: the Federation of British Industries, apparently anticipating the verdict of the *Report*, firmly announced in a sixteen-page pamphlet that it was against all 'sweeping generalisation' on collective arrangements in business (F.B.I., *Restrictive Business Practices and the Public Interest*, June 1955).

[45] There is reason to believe that the self-correction procedure is specifically a policy of the Conservative Government: the cessation of statutory orders coincided with the *Rainwater Goods Report* at the start of the Conservative administration in 1951.

[46] See Corwin D. Edwards, *Readings in the Social Control of Industry* (ed. American Economic Association, 1949), and F. A. Macgregor, 'Preventing Monopoly—Canadian Techniques' in *Monopoly and Competition* (ed. E. H. Chamberlin).

[47] See pp. 210-11.

[48] *Parliamentary Debates*, Vol. 543, No. 27, pp. 1939-49 and 2057-65.

the collective-discrimination practices; it would not limit itself to those mentioned in the *Report,* and agreements on 'common prices' and 'level tendering' would be candidates for early inclusion in the list. An examining tribunal, as each practice is registered, will call upon all associations and firms concerned to prove that their operation of the practices is in the public interest.

Obvious objections to the Government's plan are the slowness and unfairness of its operation and the fact that it will duplicate much of the work of the Monopolies Commission. But a much more important criticism is that this decision to avoid general prohibition will adversely affect the enforcement characteristics of the legislation. It cannot be good policy, if only because it removes the appearance of urgency from the legislation. It is bound to be interpreted by the interested parties in industry as a decision to 'go slow' with the most important part of the monopoly legislation to date. Those who operate restrictive practices will be comforted by the thought that the registration procedure will take a long time, and that when the moment for examination does occur a tribunal is not nearly so formidable as a law court, nor, and perhaps more significant, does it have the same importance or carry the same stigma in the public eye. The registration procedure with its examining tribunal is a natural development of the mild policy which has already been pursued in respect of statutory orders and, perhaps, implies too tender a regard for our monopolists. This is most unfortunate. The legislation is, in the main, operating along the right lines but, without some positive development of enforcement in the near future, monopoly control in this country is in danger of failure.[49] It may become just another branch of the structure of Government regulation for industry, the object of some resentment and, possibly, habitual evasion; at best there may develop the attitude of doing nothing until one is actually investigated oneself. Instead of this, monopoly legislation should emerge as part of a generally accepted code of business conduct, enforced in the courts, and as respected as, say, the Companies Acts.

A. HUNTER

University College of
North Staffordshire

[49] Enforcement in the courts would not be without problems in Britain. 'Winning' cases would require careful selection. In particular the standard of evidence of a tribunal such as the Monopolies Commission is unlikely to be accepted in British courts. For example, the existence of tacit agreements to continue to discriminate against selected traders may be difficult to prove (as seems already to be found in the application of the Dental Goods Order—see 1952 and 1953 *Annual Reports*). British Courts are unlikely to entertain the economic doctrine of 'conscious parallelism' of action which finds some acceptance in the U.S.A. courts (cf. Turner, *op. cit.,* pp. 257-8).

THE SCOTTISH CASES BEFORE THE INDUSTRIAL DISPUTES TRIBUNAL, 1951-53

THE Industrial Disputes Order, which came into force on 14th August 1951, established a new Tribunal, called the Industrial Disputes Tribunal, to take the place of the National Arbitration Tribunal which had been in existence since 1940. The constitution of the Tribunal remained as before. For the purpose of hearing a particular case it consists of five members, three of whom are drawn from a panel of independent members appointed by the Minister of Labour and one each from panels of employers' and workers' representatives appointed by the Minister after consultation with the British Employers' Confederation and the Trade Union Congress respectively. In practice, the Tribunal sometimes consists of four or of three members.

The main features of this new Order were: the retention of compulsory arbitration, the removal of the prohibition on strikes and lock-outs, the narrowing of the meaning of a trade dispute to a dispute between an employer and workman in the employment of that employer, and the provision that such a dispute can only be referred to the Minister by an organisation of employers, or by an individual employer when the dispute is between him and his workmen, or by a trade union representing a substantial proportion of the workers actually concerned. The Order imposed no general obligation upon employers to observe recognised conditions and terms of employment, but it provided for the reporting of ' issues ' concerning the observance of such terms and conditions by an individual employer.

The Minister of Labour explained in the House of Commons that the Order was of an experimental character and had been made on the understanding that it would be reviewed immediately at any time at the request of either side of industry. In fact this type of Tribunal with compulsory arbitration and the non-prohibition of strikes and lock-outs is of an entirely new character with no parallel elsewhere. Its development in practice is of considerable interest to all concerned with industrial relations.[1]

In accordance with the general desire to maintain the voluntary methods of negotiation and agreement, all disputes notified to the

[1] The difference between the Disputes Tribunal and the Industrial Court is that the latter exists for voluntary arbitration, *i.e.* the parties must agree to submit the matter to the Court, and the Court's awards are not, as the awards of the Tribunal are, legally enforceable.

Minister are not automatically referred to the Disputes Tribunal. Wherever possible the Minister endeavours to encourage the use of the existing conciliation machinery. Only after all such endeavours have failed is reference to the Tribunal made. The disputes so referred are, we must suppose, of a more or less intractable character, but, as the Tribunal will not consider disputes where open warfare exists, it would seem that both sides prefer compulsory arbitration to the method of the lock-out or the strike. The lock-out, however, it must be admitted, is not in these days a very practicable method of avoiding compulsory arbitration on the part of employers.

The total number of awards issued by the Tribunal between its inception in August 1951 and December 1953 was 470, 78 of which refer to disputes in Scottish industry. All the disputes have been brought before the Tribunal by the workers' organisations; none has been brought by employers. Indeed it is difficult to imagine a case in which an employer could really do so. In practice this type of Tribunal imposes compulsion only on the employer.

The overwhelming majority of the disputes have been on the subject of wages. The Tribunal gives no reasons for its awards; the awards merely state a decision. The preamble to the awards is: 'The Tribunal have given careful consideration to the statements and submissions brought forward by the parties. They award' . . . etc. It may therefore be justifiably assumed that the awards are based on the reasons for and against the claims brought forward, and that the principles applied are deducible from them.

The awards can most conveniently be considered in three main groups: (I) those which cover a whole industry; (II) those which cover a local section of an industry; and (III) those which refer to a particular employer or firm.

Group I

Between August 1951 and December 1953 fourteen awards were issued referring to a whole Scottish industry—one in 1951, three in 1952 and ten in 1953. The industries concerned and their official award numbers were: Fellmongering (A.62), Scottish Granite (A.166), Professional Footballers in Scotland (As.259, 450, 454), Woollen Textiles (A.263), Musicians in certain Scottish Theatres (A.318), Hosiery and Knitwear (except Hawick) (A.319), Pitwood (A.330). Manual Workers employed by Local Authorities in Scotland (A.350), Refractory Bricks (A.357), Building Bricks (A.358), Granite and Monumental Masonry (A.441), and Electrical Contracting (A.445).

All these cases, with one exception, deal with claims for an increase in wages, the exception being the Electrical Contracting industry dispute, which was concerned with the compulsory attendance of apprentices at a technical course on one day a week up to the age of eighteen years. The case of the Professional Footballers also was not fundamentally a wages question, but rather a claim for a more reasonable and representative method of determining the terms and conditions of employment. It is noteworthy that in these two cases the Tribunal's awards were largely an expression of opinion. In the Electrical Contracting industry dispute they could only recommend that apprentices be given a day off to attend a technical course where such courses are available, and this, in fact, is not always the case. Similarly, in the Footballers' dispute, apart from awarding an increase in certain rates of pay, the Tribunal could only recommend the establishment of some form of joint machinery for the regular discussion of questions of mutual interest.

The Tribunal cannot insist on an education authority's providing any particular courses of instruction, nor force any particular form of joint machinery on an industry.

Apart from these two cases the disputes were wages disputes. The claims for increases in wages were all based on rises in the cost of living supported by the plea that rises in wages had been granted elsewhere, mainly in the industry in England; in the cases of the Pitwood, Refractory Brick and Building Brick industries, the comparisons were with wages of similar grades of labour in their districts. In all these industries a rise in wages had been granted in the previous year, that is to say, the existing wage agreement had not yet been in force for one year. Without exception the claims for a rise in wages were granted by the Tribunal—not always to the full extent asked for, but more than the associations of employers had been prepared, voluntarily, to offer.

The reluctance of the employers here concerned, or indeed of any employer who is not in a strongly entrenched position, to grant rises in wages on these principles is not difficult to understand. The cost-of-living index number is not the principle which had hitherto determined their wages structure; it is unconnected with productivity and the state of the market. Conditions in Scotland are not the same as in England.[2] The principle also exposes wage costs to frequent

[2] The representative of the employers' side of the National Joint Council for Local Authority Services (Scotland) dealing with the manual workers' claim for higher wages, expressed a very general view when he argued that 'rates in Scotland must be considered on their own merits in relation to the circumstances in Scotland; and that having regard to its economic position relative to the rest of the country, a case might well be established for a lower rate in Scotland' (A.350).

and unforeseeable changes and this in itself has a disturbing and irritant effect on industrial relations.

An analysis of awards over this period leaves no room for doubt that the Tribunal was undeviatingly attached to the cost-of-living principle. This being so it became irrelevant for the employers to argue that the wages actually earned were much above the minimum rates quoted or even normally above the rates paid in England; or that the Scottish employer is burdened with higher transport costs. It is equally irrelevant to plead, as in the cases of the Woollen Textile industry, the Pitwood industry and Granite and Monumental Masonry, that a recession in trade was being experienced or, again, as in the cases of Woollen Textiles and Refractory Bricks, that a rise in wages must raise the price of the product and restrict exports, and in the case of Building Bricks increase the heavy costs of house building.

All these considerations are, strictly speaking, irrelevant under the cost-of-living principle, since undoubtedly if living costs have risen the wage-earner is less well off than if this rise had not taken place; and if a rise in wages has been awarded in one industry on this principle it cannot be refused in another. There is, therefore, no difficulty in co-ordinating awards on this principle. So far as can be judged from the awards, the plea that the abatements in taxation and increase in allowances provided in the Budget of 1952 had offset the rise in living costs must also be discounted. Such concessions do not of course affect all wage-earners to the same extent, and the Tribunal cannot become involved in such detailed assessments.

At the same time, making all due allowance for the differences in circumstance and opinion which must tend to exist when disputes are between associations of employers and trade unions, perhaps the only one of the above disputes which could not equally well have been settled by voluntary agreement was that in the Fellmongering industry. In this case the employers were not anxious to grant the rise in wages claimed but they were still less anxious to do so voluntarily. The skins they processed were the property of the Ministry of Food, for whom they worked on a costed basis. The Ministry refused to recognise any increase in wages resulting from a voluntary agreement as a legitimate charge for purposes of costing. A compulsory award was the obvious and soothing solution. In none of the other disputes was there any such practical necessity for arbitration. Agreements could have been arrived at as they had been hitherto, and the fate of the industry kept more securely in the hands of those responsible for their actions. In the period of rising prices, 1951-53, there was general assent that the cost of living had become an accepted principle, or at any rate a plea that could not be ignored. Associations of employers are in a

better position than the individual employer to sense the general feeling and to know how it is being dealt with in other cases. The trade unions know this also.

There exists, therefore, a fairly safe basis of assessment for determining how far either side can go. The Tribunal's assessment will not greatly differ from that of the parties and cannot do otherwise than split the difference between them, leaning, it is true, a little to one side or the other in the special circumstances of the case. Unless one of the parties is entirely unreasonable—and there is little evidence of this in the cases under review—this can be done equally well, indeed much better, by the parties themselves. The courage to take ' the last little step ' that will clinch the matter is the test of effective leadership and ability to manage their affairs. It is, moreover, the only protection the employer now has against compulsory arbitration.

Group II

The district or sectional disputes show much the same features as those already described but were rather more varied in character. The fifteen disputes here were between district or local associations of employers and trade unions—three in 1951, eight in 1952 (seven of which were, however, in reality parts of the same claim, covering seven stevedore firms in Glasgow), and four in 1953. The industries concerned were: Woollen Yarn Spinning in Stornoway (A.22), the Corn Trade in Edinburgh and Leith (A.23), Hosiery in Hawick (A.38), Stevedoring in Glasgow (As.122-128), the Aberdeen Packing Case industry (A.238), Engineering in Dundee (A.300), Textiles in the West of Scotland and Carlisle (A.339), Fishing Vessels in the Port of Aberdeen (A.344), and the Trawl Net Industry in Aberdeen (A.459).

In four cases—the Stornoway spinners, the Corn Trade, Hawick Hosiery and West of Scotland Textiles—the disputes arose out of claims for general rises in wages based, as before, on rises in the cost of living and increases in wages elsewhere. In all four industries wages had previously been fixed by mutual agreement; the existing agreement had been in force for one year in the case of the Stornoway spinners and the West of Scotland Textiles, for two years in Hawick Hosiery, and for only a few days in the Corn Trade.

The Stevedore dispute arose from a claim for an increase in the minimum rates fixed by the National Arbitration Tribunal six months previously. In the Dundee Engineering dispute the claim was for an increase in the starting rate for machinemen. The Aberdeen Packing Case dispute was concerned with a claim for a second week's holiday with pay; and the Fishing Vessels dispute arose from an application made by the workers that the victualling of the fishing vessels should

become the responsibility of the employers and not that of the men as hitherto.

The dispute in the Trawl Net industry raises points of more general interest and importance. Wages in this industry are regulated by the Rope, Twine and Net Wages Council. In addition to the wage rate fixed by the Council the Aberdeen employers had since 1946 been giving their workers a bonus of 12½ per cent. The minimum rates were raised by the Council in 1952 and again in 1953, whereupon the employers reduced their bonus to 10 per cent. Their right to do this was the matter in dispute. The employers stated that the giving of the bonus was purely voluntary and that in no other centre in Britain was the bonus more than 4 per cent. while at Grimsby no bonus at all was paid. To continue the 12½ per cent. bonus on the increased minimum rate would hamper them seriously in competition. The Tribunal upheld the workers' claim for the retention of the 12½ per cent. bonus but it was to be calculated on the minimum rates prevailing before the rise in April 1953. The point of general interest in this case is that the best employers—those who have voluntarily paid higher rates than the minimum—are penalised if a compulsory rise in minimum rates is construed as a general rise in all earnings to the same amount. Some awards seem to recognise this position, while others, as in this case, do not. In the Glasgow Stevedore dispute, for example, the Tribunal, in awarding a rise in the minimum rates, added the proviso that no worker who was already in receipt of a higher rate should suffer thereby. In other words, no worker should receive less than before (As.122-128). This distinction between a rise in minimum rates and a rise in all earnings avoids penalising the best employer.

With the exception of the Stornoway spinners' dispute, where the Tribunal's award upheld the employers' offer, and the Corn Trade dispute, where the claim was dismissed as invalid (being in fact an attempt by a union to controvert a wage agreement arrived at by the National Joint Industrial Council for the Trade), the workers ostensibly gained something by their appeals to the Tribunal. The differences between the parties were, however, on the whole, slight and could, with a little more patience and skill in the adjustment of difficulties, have been settled by the parties themselves. The ability to do this might well be regarded as a test of efficiency in the management of their affairs as regards employers and trade unions alike. It must, however, be admitted that the difficulties of conciliation are greatly increased when the lottery of arbitration is beckoning in the background.

Group III

The remaining forty-nine disputes are those concerned with claims against individual employers or firms. A rough classification shows that five disputes deal with claims against public authorities, three with claims against institutions, three with claims against insurance companies, and the rest, thirty-eight in all, with claims against industrial firms. With the exception of six disputes dealing with failure to observe apprenticeship regulations, two dealing with methods of holiday pay, and one with a case of summary dismissal, the disputes are concerned directly, or indirectly through status, with claims for an increase in wages, accompanied in a few cases by a claim for a reduction in hours. Usually this latter claim was withdrawn. It may be that the unions had been made aware that under the prevailing conditions such a claim was not likely to be viewed favourably by the Tribunal.

From the point of view of industrial relations, disputes within the firm are more important than disputes on a wider scale, indicating, as they do, the inability of the employer and his employees to work together in harmony and to settle their differences in a conciliatory manner. In the main, however, the disputes do not show any serious dissatisfaction or bad industrial relations within the firms concerned. A number are due to the opportunities afforded by the different grades of workers employed to their respective trade unions to try to do something to improve the relative positions of their members and, no doubt, also to justify the unions in their eyes. A number of disputes are thus concerned with the status or grade of particular employees and the relation of the semi-skilled rate to those of the skilled and the unskilled. The engineering industry with its many loosely defined branches and long fringe of machine-tending and maintenance men throughout the industry offers to the unions a natural and very fruitful field for exploration in this connection. Of the twelve disputes brought forward by the Amalgamated Engineering Union, six were directly concerned with the status and pay of semi-skilled workers, and in only one of these cases was the Union unsuccessful in its claim. The three disputes involving institutions and those affecting insurance companies were also of this nature.

In all these cases there was a debatable margin and a considerable shadow of doubt from which the Tribunal, naturally enough perhaps, usually allowed the workers to benefit. But in a similar dispute involving a public authority there was no shadow of doubt whatever (A.94). This was a dispute between a County Council in the west of Scotland and the National Association of Local Government Officers on behalf of two of their members. The County Council had refused

to observe the grading of employees agreed upon in 1946 by the National Joint Council for Local Authority Services, and re-affirmed in 1950 and 1951 by their Appeal Committee with regard to two women officers who were doing responsible work adjudged by both these bodies to be of ' Higher Division, Grade I standard '. Ultimately in January 1952 the matter was referred to the Disputes Tribunal. On behalf of the County Council it was stated that it was their practice to allocate posts of responsibility mainly to male officers. Apparently although the two women officers were occupying such posts it went against the Council's principles openly to acknowledge the fact. It must not be supposed that this somewhat threadbare principle was lightly held, since not only had the Council felt entitled to disregard the findings of their own Joint Council and Appeal Committee for a period of five years, but also, when called upon to appear before the Tribunal, their original intention was to question the Tribunal's jurisdiction.

This type of case, together with the case of summary dismissal of four workmen by a Lanarkshire employer without one week's wages in lieu of notice and in contravention of an agreement between the Engineering and Allied Employers' Federation and the Constructional Engineering Union, would seem to show that compulsory arbitration has a function—perhaps its clearest justification—in protecting individual employees from unjust treatment by an autocratic employer. The plea of the employer in this case (A.41) was that he was not a member of the Employers' Federation and therefore not a party to the agreement—a plea that will be considered later. Three other disputes involving public authorities seem to have arisen entirely through the long delay in the negotiating machinery, with the rather absurd and undignified result of a Scottish county council being required to appear before a tribunal in London in order to be told the appropriate rate of pay for a school janitor and, in another case, the date on which a wage increase to a particular employee should apply.

The number of disputes arising from direct claims for an increase in wages was seventeen. Eight of these claims were based on the increase in the cost of living and the level of wages prevailing elsewhere. In one case only was the claim based on an increase in productivity. The remaining eight cases were based on awards or agreements governing other employers.

In the first eight cases mentioned the skill or grade of the workers concerned was of a somewhat indefinite nature, and this no doubt partly explains the inability of the employers and the unions—the T. and G.W.U. in Awards 189, 356, 376 and 439, and the S.D. and

A.W.U. in Awards 14, 53, 112 and 438—to come to a satisfactory agreement. In all these cases, with one exception where the employers' offer was confirmed (A.14), the workers gained something by their appeal to the Tribunal. At the same time, when an employer offers an increase of 8s. in response to the union's demand for 12s., it should not be beyond the prescience of either party to realise that the Tribunal will split the difference between them (A.189). In this and all similar cases they could with greater advantage have done so themselves.

The solitary case based on productivity (A.102) is worthy of special attention, not only on account of its rarity but also on account of the principles involved. The company concerned, a large manufacturing firm in Fife, was operating a bonus scheme based on time and motion study and applying to a team or squad of workers. Bonuses could be earned up to a fixed maximum of 33½ per cent. on the bonus earner's rate. Owing to an improvement in methods of production affecting certain of these teams, their output had been increased, it was asserted, by 45 per cent., and therefore it was claimed an additional bonus should be paid. The employer had suggested that the benefits of increased production should be shared between the company and the workers by way of their existing profit-sharing scheme, which involved an annual distribution to all workers, and not, as was claimed, on a weekly basis to the particular teams affected. The Tribunal found that the claim of the workers for an adjustment of their bonus payment had been established, but referred back to the parties to settle by negotiation the precise amount of the increase to be paid. The employer's main objection to the claim seemed to be that, if it were allowed, it would destroy the principle not only of the company's wage scheme but of all similar schemes throughout the country. Important as this consideration may be, it should be realised that it is not one that is likely to influence such a Tribunal. To them no wages system can be regarded as sacrosanct. If it does not permit of certain readjustments considered justifiable, then, so far as the Tribunal is concerned, it must be made more elastic or, if necessary, recast. Moreover, the attitude of the Tribunal in the frequent references back to them showed that they have no desire to undertake this duty for the employer.

The remaining cases based on the claim that the terms of a previous award or agreement should be observed by a particular employer are the type of case known under the provisions of the Order as an ' issue '. They raise important points of principle and it is very necessary to distinguish between claims based on awards and those based on agreements.

In three cases (As.285, 331, 404) the claim was based on an award of the Tribunal. The employer's contention in each case was that he was not a party to the original dispute or that the union now claiming was not a party (A.331), and therefore the award quoted could not apply to him. However, where compulsory arbitration is concerned such a contention is on the whole irrelevant. It explains, no doubt, why, in the first instance, the terms of the award were not implemented by that employer but it has no bearing on the question whether the conditions which called forth the award apply to him or not. If they do the award will be extended to him, indeed by a compulsory arbitration Tribunal *must* be so extended.

The dispute dealt with in another award (A.193) is a further illustration of the long arm of compulsory arbitration. This dispute arose from a claim by the A.E.U. that the rise in wages of 10s. 1d. for all female workers in the engineering industry by a previous award (A.88) should be observed by an engineering firm in Paisley. This company was not a member of the employers' federation involved in the original dispute, nor were any of their workers members of the A.E.U. at that time. Previous to the increase of 10s. 1d. by the award (A.88), the company were paying their women workers a total weekly wage of 100s. 5d., which was 25s. 5d. above the existing basic rate—the excess being due to certain bonus or plus payments. When approached by the A.E.U. to raise the basic rate by 10s. 1d. the company gave notice to their workers of termination of engagement on a certain date, and re-engagement thereafter at the higher basic wage but with a lower bonus, involving ultimately a total increase in earnings to all workers of 4s. 6d. weekly and not 10s. 1d. as claimed by the Union.

The Tribunal decided in favour of the Union that all earnings, however high previously, must be increased by 10s. 1d. as laid down in Award 88. The employer's contentions were that they had raised the basic rate in accordance with the award when asked to do so by the Union, but they considered themselves to be at liberty to make any re-arrangements consequent upon doing so that seemed advisable to them and acceptable to their employees; secondly, that they had always paid and were paying rates in excess of those prevailing in the industry in their district. In view of this last part it would seem most reasonable to interpret Award 88 as referring only to the basic rate, although admittedly it may be open to the Tribunal to interpret it differently in the particular case.

Be that as it may, this award (A.193) emphasises a point raised earlier in connection with the Trawl Net industry (A.459), namely, that the best employers—those voluntarily paying the highest wages

—may be penalised and their right to change their methods of wage payments and their merit differentials severely limited once compulsory arbitration has been too easily submitted to by others, most probably quite hastily and with an insufficient appreciation of the general results. It was noted earlier in connection with the district awards that the awards of the Tribunal do not seem to be consistent on this question of the employers' right to vary plus rates when a change in basic rates is enforced. Whether this inconsistency arises from the different composition of the Tribunal in the cases in question it would be interesting to know. In any event in a previous award (A.158) dealing with a similar dispute between the T. and G.W.U. and an Ayrshire refractory-brick manufacturer a rise in the basic rate was not interpreted to mean a rise in total earnings, and the employer was held to be justified in modifying the plus rates in consequence. It was laid down, as in the Glasgow stevedore awards, that where workers were already in receipt of higher earnings than the new basic rate they were not to suffer any reduction in earnings in consequence of the increase.

When the claim is based on an agreement to which the employer concerned was not a party, different considerations arise. Admittedly it is always within the discretion of the Tribunal to make an award based on the conditions laid before them. But so far as an agreement is concerned, the Tribunal was not a party and has no responsibility whatsoever for its institution or its maintenance. In two disputes arising out of claims based on an agreement in the engineering industry, where the type of work concerned was only obliquely related to engineering—Horn Combs (A.129) and Metal Capsules (A.372)—the increase in wages awarded by the Tribunal was slightly less than that in the quoted agreement. In another case (A.107) involving a floor cloth manufacturing firm and the N.U. of G.M.W., where the firm was not a member of the National Joint Negotiating Committee who made the agreement, the complete terms of the agreement were awarded. Similarly, in two disputes based on agreements regarding methods of holiday pay (As.159, 317) the terms of the agreements were imposed on employers who were not members of the Employers' Association concerned in the agreements.

The effect of extending agreements in this way is that the terms of the agreement become legally enforceable on those who were not a party to it, but not legally enforceable on those responsible for it. It is an essential condition of the system of collective bargaining that voluntary agreements are not legally enforceable. If then the desire to maintain the system of collective bargaining is sincere, claims made

on the basis of other people's agreements should be discouraged. Hitherto the movement to make decisions of Joint Industrial Councils compulsory throughout an industry has never been popular, but even this is less objectionable than leaving the makers of an agreement freer, in law at any rate, to disregard it than those who were not a party to it. Is this perhaps what is meant by ' compulsory conciliation '?

The six disputes regarding non-observance of apprenticeship agreements raise similar considerations, although it may be argued that since the interests of young persons are here involved any such objections are of less importance and may be over-ruled.

Four of these disputes arose through non-observance in full of a scheme known as the 'Apprenticeship Scheme in the Building Industry in Scotland ', agreed upon in 1945 by federations of employers in the building and the painting and decorating trades and the federations of operatives concerned. In three of these disputes (As.177, 178, 179) firms of painters and decorators were involved and, in the fourth case (A.305), a firm of joiners and builders. The non-observance complained of was failure to grant leave of absence one day weekly for attendance at special courses. In two of the cases (As.177, 178) the employers were members of the Federation of Master Painters who were a party to the Scheme and they offered no defence for the non-observance. In the third case the employer argued that he was within his rights since the Eastern District Branch of the Federation had the right to exempt employers from certain details of the Scheme and, if notified to the Federation, the exemption became a bye-law, and this had been done; secondly, that the point at issue had never been referred to the Falkirk and District Local Joint Council for the Painting Trade, the body responsible for working conditions of painters in the district. In the fourth dispute (A.305) the employers—a firm of joiners and builders—argued that they were not members of the Federation responsible for the Scheme and therefore not bound in any way by the terms of the agreement. The two remaining cases, involving a cinema proprietor (A.95) and an engineering firm (A.364) were of a similar nature, the employers in both cases pleading that they were not members of the employers' associations who were parties to the agreements in question.

In all these cases the Tribunal awarded in favour of the claim for full observance of the schemes or agreements. Whatever may be said in favour of these decisions from the point of view of the young apprentices involved, the important question is: ' Has the Industrial Disputes Tribunal become a method of making industrial agreements compulsory both for those not a party to the agreement and for any

recalcitrant individual who was such a party?' If so, this surely constitutes more than a modification of our voluntary conciliation system, the essential condition of which is that such agreements are not legally enforceable.

The claims refused by the Tribunal—twelve cases in all—raise no points of general interest, being in the main somewhat optimistic claims on behalf of individual employees on questions of overtime pay (As.21, 30, 455), grading (As.61, 181, 252), bonus arrangements (As.108, 440) and rates of pay (As.7, 256, 100, 189).

The working of this experimental Tribunal over the period under review suggests the following conclusions.

1. It confirms the lessons of previous experience that conciliation works less effectively with compulsory arbitration lurking in the background. This is clearly illustrated in the national and district disputes.

2. Where the two methods are combined they prove very uneasy bedfellows. Awards based on other people's voluntary agreements put particular employers in an invidious position before the law and are contrary to an essential element of the voluntary system.

3. The awards also show that the powers of employers to fix incentives and merit differentials tend to be restricted. The general effect of the awards is to make differentials less marked. Since the awards are legislative this levelling tendency is no doubt unavoidable but it is not good for industrial productivity.

4. There is some divergence in the awards of the Tribunal on this question which may be due to the different composition of the Tribunal in different cases—probably unavoidable but not beneficial.

5. The general objection to all tribunals set up for particular purposes is specially pertinent, namely, that since they have no clear principle to apply they, wisely no doubt, give no reasons for their decisions; at the same time, there is no appeal against them, however hardly they may press upon the individual concerned in a particular case.

6. In favour of the Tribunal, two at least of the cases seem to show that where a real grievance exists and where neither the workers nor their unions feel in a position to support the claim by any form of combined action, compulsory reference to such a Tribunal is undoubtedly a beneficial solution. It may also be the case that the less reasonable type of claim against the individual employer, if argued before a Tribunal, will clear the air and, in the long run, improve industrial relations through removing the onus of refusal from the shoulders of the employer.

MARY T. RANKIN

Edinburgh

THE ECONOMICS OF WATER SUPPLY[1]

I

ECONOMISTS have in the past given very little attention to the water supply industry. This seems strange at first since it is obviously one of the country's main services, comparable in importance with electricity, gas and transport, the problems of which have been so intensively studied. The reasons for this neglect might seem to be, first, that the industry is a very small one in relation to the whole economy, accounting for only a small part of consumers' and producers' expenditure, and, secondly, that in its operation commercial considerations have tended to take second place to those of engineering and public health.

The industry is certainly small. According to the Census of Production of 1950, the 355 water undertakings with more than 10 employees each had a total net output of only £38m., or 0·3 per cent. of the gross national product, and employed 36,270 persons, or 0·2 per cent. of the occupied population. If the 681 public undertakings employing up to 10 persons each are added, the total comes to about 39,000 persons.[2] Moreover, there is a good deal of private water supply. Many industrial firms which are large water-users have their own supplies from underground sources or from rivers, many landowners supply their tenants with piped water, and many houses in country areas rely on springs and wells. But even if this were added in, the total share of the water supply industry in the national economy would be small.

The cost of water forms only a small part of the expenditure of consumers and producers. In a pamphlet published in 1951 by the British Waterworks Association[3] it was pointed out that for domestic

[1]Acknowledgment is due to the Secretary of the British Waterworks Association for his advice and help, and to the chief officers of the following authorities who have kindly made information available to the author: the Metropolitan Water Board, the Durham County Water Board, and the Fylde Water Board; the Lanarkshire County Council and the Corporations of Birmingham, Cardiff, Coventry, Dundee, Glasgow, Greenock, Leeds, Leicester, Liverpool, Manchester, Nottingham, Plymouth and Southampton.

[2] The industry is more significant relatively as a user of capital. According to the figures given in Mr. Redfern's recent paper to the Royal Statistical Society, ('Net Investment in Fixed Assets in the U.K., 1948-53', *J.R.S.S.*, Part II, 1955), water supply accounts for around 1½ per cent. of annual capital formation, and for something like 2½ per cent. of the country's net fixed capital assets.

[3] *Organisation of the Water Supply Industry in England and Wales*, 1951.

consumption the average cost of supply was about 20s. per head per annum, or two-thirds of 1d. per day per person, and that probably less than this was actually paid since dwelling houses are not charged on the quantity consumed but on the size of the house. As for industry, the *Census of Production Reports* indicate that the cost of water purchase forms only an insignificant part of the total cost of materials and fuel—less than 0·5 per cent.—even in the case of trades like brewing and chemicals and spirit distilling which use a great deal of water.[4] This underestimates the total cost since firms often use their own private sources of water where large quantities are required; nevertheless it is probably true to say that the cost of water, as opposed to its availability in adequate quantities and suitable qualities, rarely plays an important part in the calculations of industry.

Traditionally, also, commercial considerations have played relatively little part in the administration of water supply undertakings. The nature of the industry's costs is to a large extent responsible for this. Water supply normally involves a very large capital investment, in reservoirs, filters, mains, etc., so that capital costs may in some cases form as much as 50 per cent. of total costs. Unlike gas or electricity supply, the industry is dealing with a relatively limited natural asset. If consumption increases beyond a certain point extra supplies will have to be found, and this may involve the undertaking of costly additional works such as the building of new reservoirs, often at a distance, and the construction of aqueducts to bring the water from them. Therefore there is little incentive for managements to encourage increased consumption; indeed, the emphasis is normally on restricting consumption and encouraging economy in the use of water.

Engineering and public health considerations have thus predominated over commercial considerations. Water undertakings are normally under the direction of engineers, whose chief aim is to secure for their consumers an adequate supply of pure water and whose interest lies in the engineering problems which must be solved if this is to be done. Pure and abundant water is so obviously essential from the point of view of public health that it has become the accepted aim of administrators to ensure that it is made available cheaply and to encourage its use. Hence the charge made to domestic consumers does not vary with their individual consumption but only with the size of their house as reflected in its rateable value.

[4] The chief exception to this rule was the very small trade of ice-making, where water costs accounted for 5 per cent. of the total cost of materials and fuel.

Although there are still some 130 statutory water companies, accounting between them for about a sixth of the total water consumption, local authorities predominate in the industry. This is natural in view of their public health responsibilities and the lack of commercial opportunities attractive to private enterprise. Water supply is technically a trading service and, in the case of larger authorities at least, the water undertaking is expected to pay its own way. Yet it has been linked more with administrative services such as public health, sanitation and cleansing than with the other trading services like transport, gas and electricity.

II

The Recent Expansion in Water Consumption

Relatively little attention has therefore been given to the problem of how to make the best use of the country's water resources and to the economy or otherwise with which they are being used. This is largely because Britain as a whole has plenty of water, droughts being unknown and rainfall being well distributed. Yet in some of the most densely populated parts of the country the problem of finding suitable supplies to meet the growing needs of population and industry is becoming acute.

That water consumption is growing there is no doubt. In 1907, according to the Census of Production, the total quantity supplied by undertakings with 10 or more employees in the United Kingdom (including Ireland) was 351,000 m. gallons. By 1935 the total had risen to 493,286 m. for Great Britain and Northern Ireland, or about 486,000 m. for Great Britain alone. By 1948 the total for Great Britain alone had risen to 651,159 m. gallons, an increase of 34 per cent. compared with 1935. At the same time the population of Great Britain had risen from 42·1 m. in 1911 to 46·0 m. in 1935 and 48·8 m. in 1951 (or by 9 per cent. and 3 per cent. respectively). Thus the expansion of water consumption far outstripped that of population, even though some allowance must be made for the replacement of private supplies by public supplies over the period, and for the transfer of consumption from undertakings with less than 10 employees to those with 10 or more.

More detailed information about the increase in consumption experienced between 1938 and 1948 by 26 of the larger undertakings is given in the *Interim Report of the Committee on the Causes of the Increase in Consumption of Water* (1949). For the 22 undertakings in England and Wales which were surveyed, total con-

sumption had increased from 651 m. gallons per day in 1938 to 778 m. gallons per day in 1948, or by 20 per cent.; but these included the Metropolitan Water Board, which showed an increase of only 8 per cent., and for the other 21 undertakings the increase was 30 per cent. Average consumption per head per day for all users had risen by about 25 per cent. For the four Scottish undertakings covered, total consumption per day had risen from 121·5 m. gallons to 133·5 m. gallons, or by 10 per cent., while average consumption per head, which is much higher than in England, had risen by 9 per cent.

The *Report* points out that the increase since before the war was due both to the increased demands of industry under full employment and to the improved facilities for using water in modern houses. Some of it was also due to waste, which could not be fully checked by the undertakings during and immediately after the war owing to shortages of staff and other resources.

The present author has carried out a more detailed investigation into the trend of consumption for six large municipal undertakings and for the Metropolitan Water Board. These seven undertakings together account for about 30 per cent. of the public supply of water in Great Britain. The results are given in Table I.

TABLE I

EXPANSION OF METERED AND UNMETERED CONSUMPTION IN SEVEN LARGE UNDERTAKINGS
(1938-39 = 100)

Undertaking	Metered consumption			Unmetered consumption			Total consumption (excluding bulk sales)		
	1930-31	1938-39	1950-51	1930-31	1938-39	1950-51	1930-31	1938-39	1950-51
Corporation of:									
Birmingham	74·5	100·0	160·8	77·5	100·0	106·5	76·8	100·0	123·8
Coventry	64·4	100·0	204·1	70·1	100·0	115·5	68·5	100·0	140·9
Glasgow	83·5	100·0	133·7	103·3	100·0	99·6	96·6	100·0	111·1
Leicester	86·0	100·0	136·2	79·8	100·0	133·5	82·1	100·0	134·0
Liverpool	90·4	100·0	157·3	93·8	100·0	103·2	92·8	100·0	118·7
Manchester	89·2	100·0	167·5	91·9	100·0	98·2	90·9	100·0	124·5
Total of above	84·4	100·0	152·5	92·3	100·0	103·5	89·7	100·0	119·8
Metropolitan Water Board	82·7	100·0	108·3	91·3	100·0	97·7	88·7	100·0	100·9

The total annual consumption in 1950-51 for the six municipal undertakings taken together was 96,529 m. gallons, and for the Metropolitan Water Board it was 114,244 m. gallons.

Unmetered consumption can be taken to be mainly domestic, although it includes certain small trade users. It will be seen that for

the six municipal undertakings taken together it was only 3½ per cent. greater in 1950-51 than in 1938-39. For two of them, and for the Metropolitan Water Board, it was actually slightly smaller. In these figures the influence of improved measures against waste is clearly seen, for there has been a noticeable fall from the post-war peak—the years 1946-48—when unmetered consumption showed an increase of 8 per cent. above 1938-39 for the six municipal undertakings and nearly 12 per cent. for the Metropolitan Water Board.

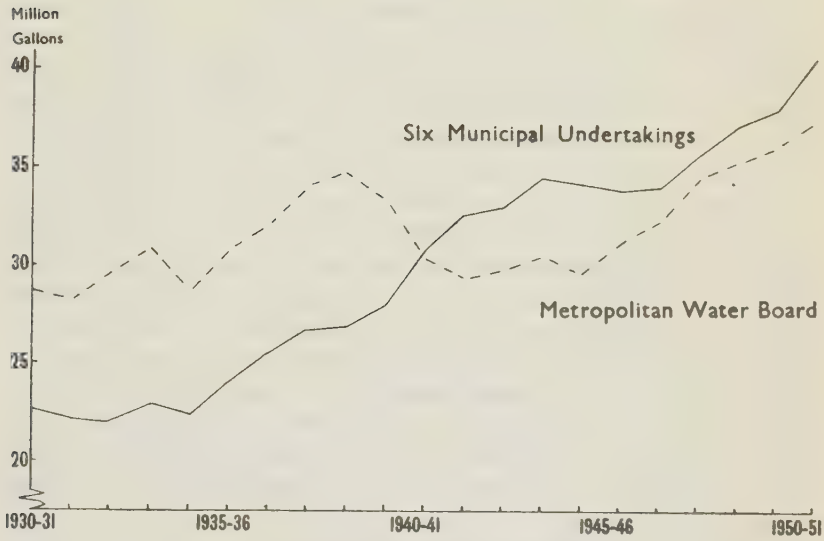

FIG. 1. The expansion in metered consumption of water, 1930-31 to 1950-51.

Metered consumption, on the other hand, which is mainly for industrial and large-scale trade purposes, rose by an average of 52 per cent. for the six municipal undertakings, though by only 8 per cent. for the Metropolitan Water Board. The trend is illustrated by Fig. 1. Although the extent of the increase was greatest in a town like Coventry where industrial expansion was particularly rapid, it was large in all cases, even where domestic consumption was stationary. The increase was also fairly constant over the period, and continued equally rapidly in the post-war years, for the index for 1947-48 was 132·7 compared with 152·5 for 1950-51. The experience of the Metropolitan Water Board was different; evacuation caused

industrial and domestic consumption to fall during the war years, so that in 1944-45 metered consumption in London was 14½ per cent., and unmetered consumption 7½ per cent., *below* the 1938-39 levels. After the war the return of industry to London and its renewed expansion meant that the Board shared in the general trend towards increased industrial consumption.

If the experience of these seven undertakings can be taken as typical, there is reason to believe that the rapid growth of water consumption in recent years is mainly industrial rather than domestic. The same trends can be seen, though less markedly, when the figures for 1938-39 are compared with those for 1930-31. To some extent this reflects stricter measures to restrain the growth of domestic consumption, by exhortations to economy, by efforts to detect and suppress waste and, in some cases, by actual restrictions, *e.g.* on the use of hose pipes. Industrial consumption cannot be restrained in the same way, for the firms need the water for increased production and they pay according to what they consume.

In conditions of full employment and rising output industry naturally uses more water than in the relatively depressed years of the thirties, but some of the large water-using industries, such as chemicals and plastics, have shown a tendency to greater than average expansion in recent years, and the increase in electricity generation means that more water is used by power stations for cooling. The tendency for firms to obtain supplies from water undertakings instead of using their own private supplies may have been encouraged by the provisions in the Water Act, 1945, which give users a qualified right to demand a supply for non-domestic purposes, provided it can be given without jeopardising domestic supplies. Many firms also, which used to rely on obtaining supplies direct from rivers, have been seeking supplies from the public water undertakings because of the stricter control over rivers now exercised in England and Wales by the River Boards established under the River Boards Act, 1948. Moreover, during the stress of wartime and early post-war production conditions, there was often less care taken to ensure that process water was re-used as far as possible before it was allowed to run to waste.

It is likely, therefore, that water supply will become a more significant factor in influencing economic development in the future. Although Britain has plenty of water for all needs, it will be necessary to make more effective use of it, especially in the more densely populated lowland areas. For instance, in the southern, eastern and midland parts of England, where adequate surface supplies are less readily available, reliance has been placed largely on the abundant underground supplies, especially in the limestone and chalk areas.

But with the growth of population there is an increasing need to ensure that these are preserved from pollution or from waste through mineral workings. This was recognised when powers were given to the Minister of Housing and Local Government, by the Water Act, 1945, to make such Orders as were necessary to protect underground water resources. Similarly, in the industrial areas of the north there is a need to ensure that the best use is made of the surface supplies in the neighbouring upland country, *e.g.* the Pennines. Moreover, statutory water undertakings are not the only bodies concerned with the use of the rivers, and their interests must be reconciled with those of land-drainage, navigation, fishery and sewage-disposal authorities.

There is a growing need, therefore, for the consideration of the water resources and needs of areas and regions as a whole to replace the competitive struggle for supplies which has so often taken place in the past. A beginning has been made already with the establishment (in England and Wales) of River Boards which combine the responsibility of the competing interests in the control and use of river water on the basis of a single authority, for one or several adjoining river basins, in place of the previous separate drainage, navigation, fishery and other authorities. A beginning has also been made in the powers given to the respective Ministers by the Water Act, 1945, and the Water (Scotland) Act, 1946, to encourage and promote the amalgamation of water supply undertakings, the alteration of their areas of supply and the giving of bulk supplies. In England and Wales there is provision for the strengthening of the formerly purely advisory Regional and Central Water Committees, which are intended to consider the best use of water resources on a regional or a national basis. The problem of the improvement of rural water supplies also needs further consideration, though great progress has recently been made in this sector with the aid of the grants available to local authorities under the Rural Water Supplies and Sewerage Act, 1944.

In the administrative sphere the need for a more positive policy has thus been recognised, though there are many in the industry who feel that the matter has not been carried far enough.[5] The rapid growth of industry and population in certain areas which do not have ready access to additional upland supplies has caused difficulty to some authorities. Coventry Corporation, for instance, has experienced a particularly large expansion of demand which has already outrun the underground resources on which the city used to depend. Water had to be bought from Birmingham on a large scale until costly

[5] Cf. the suggestions contained in the British Waterworks Association's pamphlet, *Organisation of the Water Supply Industry in England and Wales*, 1951.

capital works were completed in order to obtain an additional supply from the Severn. Meanwhile restrictions had to be imposed on domestic consumers. Manchester Corporation, which supplies many surrounding towns and districts in a densely populated industrial area, will continue to be short of water in dry seasons until the Haweswater scheme is completed by the building of a new aqueduct.

III

Water-supply Prices and Costs

The big increase in the output of water has been achieved with remarkably little increase in price. The British Waterworks Association has estimated that the average cost per thousand gallons, for the 22 undertakings in England and Wales covered by the Ministry of Health *Report* referred to above, rose from just over 1s. in 1938-39 to just under 1s. 6d. in 1948-49, and that the maximum price increase was about 45 per cent.[6] This compares favourably with the rise in the general price level, or in the prices of such basic commodities as coal and rail transport. For the six large municipal undertakings of Table I taken together, average revenue received per thousand gallons sold (including bulk sales) rose from 9·7d. in 1938-39 to 11d. in 1948-49 and 11·7d. in 1950-51, or by 11·3 and 12·1 per cent. respectively. In the case of the Metropolitan Water Board the increase was from 12·3d. in 1938-39 to 18·1d. in 1948-49 and 18·2d. in 1950-51, or by 52 and 53 per cent.; the greater rise in London was due partly to a steeper rise in costs and partly to the lack of expansion of output relative to costs which are largely fixed.

In fact, the small extent of the price rises, at a time when the costs of labour and materials have risen so steeply, is due largely to the nature of water-supply costs. A large part of the total consists of capital charges, the interest on borrowed capital and the provision for its redemption or for the depreciation of the assets in which it is embodied. Capital charges in some cases form as much as 50 per cent. of total costs, and usually in the case of impounded supplies they form at least 30 to 40 per cent. In the case of supplies pumped from underground or direct from rivers the proportion is lower, for impounding reservoirs and their associated aqueducts are not needed, so that the volume of capital investment is lower. On the other hand, working expenses are higher since they include the cost of pumping.[7]

[6] British Waterworks Association, *Organisation of the Water Supply Industry in England and Wales*, para. 27.

[7] Some pumping costs are incurred even in the case of gravitational supplies, since water often has to be pumped to high level areas, but these are naturally much less than where the whole supply has to be pumped from the source.

Even in these cases, however, capital charges will probably not fall much below 15 per cent. of the total. As consumption increases the burden of capital charges is naturally spread over a larger output, so that cost per unit falls unless the point is reached at which new investment has to be incurred. Moreover, in the case of local authority undertakings, part of the outstanding capital liability is redeemed each year so that, in the absence of new investment, the annual burden of provision for interest and redemption tends to fall steadily.

A large part of the working expenses are also relatively fixed in relation to small changes in output. This obviously applies to the payment of local rates on the water-undertaking's property, which can form quite a considerable part of working expenses—sometimes as much as 15 to 20 per cent.—especially for undertakings which own extensive impounding reservoirs and their surrounding catchment areas. It also applies to administrative expenses and other overheads, and to a good deal of the cost of maintaining plant and equipment such as reservoirs, filters, mains, etc. Thus, though the prices of the labour and materials needed for operating water undertakings have risen, costs have not risen proportionately to the expansion of consumption. The chief exception to this is the cost of pumping, which varies fairly directly with output.

On the other hand, if consumption expands to the point at which extensive investment in new supply works is required, the effect on costs may be considerable, especially at a time of rising prices. The new construction will have to be carried out at high cost, and a heavy burden of interest and redemption payments on the extra capital liabilities will have to be met, especially in the first few years before they have been reduced by repayment. In these circumstances it may well be found that existing charges are too low and must be increased.

The changes in cost and revenue per unit for the six municipal undertakings and for the Metropolitan Water Board since before the war are given in Table II.

The general trends of unit revenue, unit working expenses and unit capital charges are clearly brought out in these examples. In most cases working expenses per unit showed an increase which, though considerable, was moderate compared with the rise in wages and prices of materials because it was accompanied by the spreading of costs over a larger output. Capital charges per unit, on the other hand, actually fell in all cases except one, for outstanding capital liabilities were being reduced by annual repayment at the same time as output was increasing; the exception was Coventry where heavy new capital expenditure had to be incurred on the Severn scheme.

As a result of the joint operation of these factors, the increase in average revenue per unit was comparatively small.

Table II also illustrates another striking feature of the water-supply industry, the great variation in the level of unit costs and prices between undertakings. The demand for water being highly inelastic, both because it is a necessity and because its price is extremely low

TABLE II

UNIT COSTS AND REVENUE IN SEVEN LARGE UNDERTAKINGS
(Per thousand gallons sold, including bulk sales)

Undertaking	1938-39			1950-51			1950-51 / 1938-39		
	Revenue d.	Working expenses d.	Capital charges d.	Revenue d.	Working expenses d.	Capital charges d.	Revenue %	Working expenses %	Capital charges %
Corporation of:									
Birmingham	16·9	7·0	8·4	18·0	8·8	6·7	105·8	125·7	79·0
Coventry	16·7	11·3	3·5	20·7	15·9	5·9	124·0	141·4	171·5
Glasgow	4·3	2·7	1·4	5·6	4·3	1·3	131·5	159·3	94·8
Leicester	16·0	8·7	8·1	19·4	9·9	7·8	121·3	114·0	96·4
Liverpool	10·5	5·0	6·0	11·3	7·0	4·2	108·0	140·1	69·0
Manchester	9·0	4·3	4·8	11·7	7·5	4·0	130·7	175·4	83·0
Total of above	9·7	4·8	4·7	11·7	7·1	4·0	120·6	148·5	84·7
Metropolitan Water Board	12·3	6·6	4·8	18·2	12·9	5·2	153·3	193·9	109·6

in relation to the prices of other goods, it is possible for these price differentials to persist without any effect on demand. They reflect the varying conditions under which supply is given. Thus the high working expenses per unit in Coventry were due to the facts that part of the supply was pumped from underground and part was purchased in bulk ready-filtered, and that consumption per head was low (cf. Table III). Low consumption was partly due to the restricted water resources available, which led to more stringent efforts to reduce consumption. In Glasgow the low level of unit costs is largely a reflection of the very high consumption per head, which in turn reflects the abundant supplies of water. In the case of capital charges, Glasgow's lower figure also reflects the city's good fortune in obtaining access to adequate supplies from Loch Katrine and its environs a century ago. Most of its heaviest capital expenditure was thus incurred at prices much lower than those of recent years. Part of the original capital liability has since been repaid, and subsequent capital expenditure has not been high. Manchester, Birmingham and Liver-

pool, on the other hand, have had to incur heavy capital expenditure more recently, on the Thirlmere and Haweswater, Elan Valley, and Vyrnwy schemes.

Further illustrations of the relationship between consumption per head, type of supply, and unit costs, are given in Table III.

TABLE III

CONSUMPTION PER HEAD, UNIT COSTS AND TYPE OF SUPPLY, 1950-51

Undertaking	Consumption per head per day (all uses)	Working expenses per thousand gallons	Capital charges per thousand gallons	Type of supply
	Gallons	d.	d.	
Glasgow	69·6	4·3	1·3	Gravitation
Plymouth	65·1	6·2	3·1	Gravitation
Dundee	61·0	5·5	2·2	Gravitation
Manchester	52·2	7·5	4·0	Gravitation
Metropolitan Water Board	48·3	12·9	5·2	Pumped
Liverpool	43·6	7·0	4·2	Gravitation
Cardiff	42·8	9·6	6·7	Gravitation
Fylde Water Board	42·0	8·0	7·5	Gravitation
Southampton	41·6	11·6	4·6	Pumped
Leeds	37·7	10·1	4·7	Gravitation
Nottingham	37·6	12·3	3·1	Pumped (mainly)
Birmingham	37·5	8·8	6·7	Gravitation
Leicester	35·1	9·9	7·8	Gravitation
Coventry	33·1	15·9	5·9	Pumped and purchased
Durham County Water Board	27·3	8·9	7·5	Gravitation

Although the actual level of working expenses in each case depends on local circumstances, two main principles seem to stand out fairly clearly. First, working expenses per unit fall fairly steadily as consumption per head increases, owing to the spreading of fixed costs over large outputs, especially in gravitation supplies. Secondly, working expenses per unit are noticeably higher where supplies are pumped either from underground sources or, as in London, direct from rivers.

In the case of capital charges the first principle also applies, though less clearly because of the variations in the level of outstanding capital liabilities. The second principle should operate in the reverse direction, for pumped supplies normally involve a smaller investment in fixed capital than gravitation supplies. In the four examples of pumped supplies, the ratio of capital charges to working expenses is certainly lower than for the gravitation supplies, but the absolute level

of unit capital charges is not necessarily lower since it depends so much on the relative size of outstanding capital liabilities, and that depends on how much recent capital expenditure has had to be carried out.

A number of examples illustrating this last factor are given in Table IV.

TABLE IV

CAPITAL ASSETS AND OUTSTANDING LIABILITIES IN RELATION TO OUTPUT, 1950-51

	Value of capital assets per million gallons[a]	Capital liabilities outstanding per million gallons	Capital liabilities as a percentage of capital assets	Capital charges per thousand gallons
	£	£	%	d.
Fylde Water Board	953·7	550·0	57·7	7·5
Cardiff	859·1	301·4	36·8	6·7
Lanarkshire County Council	825·2	436·2	52·9	4·3
Leeds	816·0	315·1	38·6	4·7
Birmingham	805·9	415·3	51·5	6·7
Durham County Water Board	700·7	337·2	48·1	7·2
Coventry	648·1	380·1	58·6	5·9
Manchester	647·8	337·7	52·1	4·0
Liverpool	508·4	421·3	83·0	4·2
Leicester	440·5	182·6	41·5	7·9
Southampton	435·8	216·9	49·8	4·6
Nottingham	392·1	176·9	45·1	3·1
Dundee	336·4	87·1	25·9	2·2
Glasgow	228·3	79·7	34·9	1·3
Greenock	167·3	35·2	21·1	1·3

[a]At original cost as shown in the undertaking's capital accounts.

The variation between undertakings, in the value both of capital assets and of outstanding liabilities relative to output, is most marked. The lowest levels of capital charges per unit are naturally found in those cases where outstanding capital liabilities are relatively low, as in Nottingham, Dundee, Glasgow and Greenock. Higher up the scale, the relationship between outstanding liabilities and annual capital charges is less clear, since a great deal depends upon the form of capital charges, *e.g.* the extent to which provision is made for redemption each year. In the case of Leicester the high annual figure includes contributions towards the capital charges of the Derwent Valley Water Board, of which Leicester Corporation is one of the constituent members.

Further examples of levels of consumption per head, for both unmetered and metered supplies, are given in Table V.

TABLE V

SOME EXAMPLES OF LEVELS OF CONSUMPTION PER HEAD

	Consumption per head per day, 1950-51, (excluding bulk supplies) in gallons		
	Total	Unmetered	Metered
Glasgow	69·6	40·7	28·9
Dundee	60·2	37·0	23·2
Manchester	52·2	25·6	26·6
Metropolitan Water Board	48·3	32·5	15·9
Liverpool	43·6	27·0	16·6
Cardiff	41·8	23·0	18·8
Leeds	37·7	23·8	13·9
Birmingham	37·5	21·9	15·6
Leicester	35·1	23·3	11·8
Coventry	33·1	13·7	19·4
Durham County Water Board	27·3	17·1	10·2

The variations in metered supplies per head are the greater, and these reflect the relative extent to which the undertakings concerned have industrial and trade establishments which are large water users in their areas. The variations in the level of unmetered supplies per head are also considerable, and this reflects almost entirely differences in domestic consumption.

From the evidence which we have been considering, it appears that the level of water-supply costs depends largely on three factors. The first is the relative level of outstanding capital liabilities, on which interest and redemption charges must be met. Secondly, there is the type of supply, and in particular whether it is an impounded gravitation supply or a supply pumped from underground or river sources. Pumping charges, which vary with output, are high in the second case, and payments for local rates are usually higher in the first case. Thirdly, there is the level of consumption per head of the population, which influences the extent to which the costs of the industry, which are largely fixed, are spread over a greater output. Because of this rather peculiar cost structure, the industry has been able to face a considerable expansion of consumption, coupled with the wartime and post-war rise in the costs of labour and materials, with very little increase in the prices charged to consumers. But if consumption continues to expand, so that extensive new capital investment becomes necessary at post-war prices, the increased burden of capital charges will make a continuation of this position impossible.

IV

Prices, Demand and the Future

If the most efficient use is to be made of the country's water resources, there is a need for greater attention to be paid to the economic aspects of water supply, as well as to the engineering and public health aspects. There is need for a greater understanding of the nature of the various elements in costs, and how they are affected by changes in output. Further attention needs also to be given to the industry's pricing policy and to how far it affects the trend of demand. The demand for water appears to be highly inelastic: domestic demand depends mainly on social habits and the availability of facilities such as taps, baths and water closets, and trade demand depends mainly on the technical requirements of the industry or trade concerned. Water is so cheap that price does not have much effect against the strong pull of these demand factors. Yet the method of charging may well exercise an influence.

Domestic supplies in this country are never charged according to consumption but always by a rate of so much in the pound on the rateable value of the premises. Rateable value may well be taken as a rough indication of the extent of the facilities for the use of water, especially as extra charges are usually made for such fittings as hosepipes and garden taps. It is only a very rough index of consumption, however, for it bears no definite relationship to the number of people living in the house. More important, a fixed charge means that there is no deterrent to the wasteful use of water. Consequently, undertakings have to spend a good deal of money in detecting waste through leaks and defective taps and other fittings, by periodically metering the supply to particular areas, and by night sounding of service mains to detect excessive use of water at a time when legitimate use is at a minimum. In particular, undertakings which have faced a rapid expansion of trade demand with limited available resources have recently had to take steps to restrict domestic demand as far as possible, owing to the holding up of new supply works during and after the war.

It has sometimes been suggested that metering should be introduced for domestic supplies, as is frequently done in the United States. Prevailing opinion in the industry is opposed to this, because it is felt that the cost of providing and installing meters, and of regularly reading them and making out the bills, would exceed the saving of expenditure on waste prevention. For public health reasons also it has been held to be undesirable to do anything to discourage the freest use of water. There is no doubt, however, that waste can be a

serious problem, as is indicated by the comparative figures of consumption per head for domestic purposes in different towns given in Table V.

Large scale industrial and commercial supplies are charged by meter, so that there is some incentive to avoid waste. The type of tariff varies. Sometimes it is a flat rate of so much per thousand gallons, but more often it is a sliding scale in which the charge per thousand gallons is reduced as consumption increases. In the latter case there is an incentive to increased consumption, similar to that given by block and two-part tariffs in electricity supply. The relationship between the average price to the consumer of domestic and trade supplies varies considerably between undertakings. Some undertakings tend to charge rather higher rates for trade users, in order to keep down the domestic water rate. Others, especially in industrial areas, tend to quote lower charges for trade use for the benefit of local industry. Nevertheless water charges form such a small part of industrial costs that it is unlikely that their level has much effect on consumption, as compared with the technical needs of the industry or trade concerned. More important, probably, is whether the undertaking can make the water available in the quantities required, having regard to its obligation to domestic consumers.

The level of water charges varies enormously between undertakings, reflecting the great variation in water-supply costs. Since this variation in price does not appear to have much effect upon demand, it is apparent that the price system as a means of allocating scarce resources between alternative uses does not work very effectively in water supply. In recent decades the most rapid growth of industry and population has tended to take place in areas like Greater London and the West Midlands, which are remote from the country's main undeveloped water supplies. There is a danger, therefore, of the greatest demand for water arising in those areas where it is most costly to make an adequate supply available, rather than in those where it can be provided cheaply. All of which suggests that there is still a need for a more comprehensive examination of the country's water resources in relation to the likely requirements of domestic users and industry.

J. F. Sleeman

Glasgow

OBITUARY

BERNARD WEBER

1923 - 1955

Bernard Weber died suddenly of poliomyelitis on 18th June 1955, at the early age of thirty-one. The June issue of the *Scottish Journal of Political Economy,* which appeared the day before his death, contained two articles from his pen and all the diagrams in the earlier issues were drawn by him. Thus the *Journal* has special cause to mourn his loss.

Alike in life and death, he was enveloped in tragedy. An Austrian Jew, he was born at Tulnerbach, near Vienna, in November 1923, and was brought to England as a refugee shortly before the outbreak of war; his parents and all other close relatives were removed to concentration camps and he never again saw any of them. He spent most of the war in an engineering factory and later attended the London School of Economics, where he took a B.Sc. and remained for a time on research work directed by Professor E. H. Phelps Brown.

At the beginning of 1953 he was persuaded to come to Glasgow and pursue the study of building fluctuations which he had already begun. It was the first-fruits of this work that appeared in our June issue; two articles on allied topics were ready for publication, one on factory-building and one on fluctuations in the building industry before 1850; and a few days before his death he had completed a first draft of what was to have been his doctoral dissertation. In the meantime, two other articles had been published: one (with Professor Phelps Brown) on 'Accumulation, Productivity and Distribution in the British Economy' in the *Economic Journal* (1953); and one (with S. J. Handfield-Jones) on 'Variations in the rate of economic growth in the U.S.A., 1869-1939' in *Oxford Economic Papers* (1954).

Weber had a real talent for applied economics, particularly for that blend of economic theory, history and statistics that is often referred to as 'quantitative history'. He had a knack of digging up statistical series that seemed unlikely to have survived and would immerse himself in analysing his data with the utmost singlemindedness. He was a scholar, with the modesty and reticence of a scholar, easily contented, never excited, holding himself a little aloof, not in disdain of company but because he preferred to let others take the lead in conversation, venturing a suggestion here and a mild criticism there. To lose one so promising and so productive comes as a great blow.

A. K. CAIRNCROSS

Washington, D.C.

CURRENT TOPICS

At the time of writing, arrangements were almost completed for the fifth annual conference of the economists of the Scottish Universities, meeting as usual at 'The Burn', Edzell, in the third week of September. This year's theme was the nationalised industries, papers being read by Dr. Alan Thompson of Edinburgh (The Fleck Report), Mr. J. F. Sleeman of Glasgow (Pricing Policy), and Mr. D. J. Robertson of Glasgow (Labour Relations).

Among their other benefits, these conferences have helped to stimulate social and economic research in Scotland, occasionally by providing a forum for the research worker, but more generally through the sharing of ideas and the exchange of friendly criticism. To facilitate this development, detailed information on current research in economics and allied subjects in Scotland is being collected by the Council of the Scottish Economic Society. Notes on research in progress will be published in the *Journal* whenever this seems an appropriate way of disseminating the information, but persons who are interested in specific subjects may address inquiries, at any time, to the Secretary, T. A. F. Noble, Esq., M.B.E., King's College, Aberdeen. While it may often be interesting for the layman to know who is the expert in a particular field, it may equally be useful and important for the academic research worker to be put in touch with people outside the universities with specialised knowledge in his own field of research.

The secretaries of the local branches of the Scottish Economic Society have submitted provisional lists of meetings for 1955-56, which are published below. Members who desire further information or have suggestions to make should write to the local secretaries.

Edinburgh Branch

(*Secretary:* Dr. Mary T. Rankin, 51 George Square, Edinburgh)

12th October 1955	'Adam Smith and Laissez-Faire': Professor Sir Alexander Gray, C.B.E., University of Edinburgh.
9th November 1955	'The Finance of Industry in Scotland': F. S. Taylor, Esq., General Secretary of the Institute of Bankers in Scotland.
7th December 1955	'The Economic Prospects of Scotland': Dr. C. Macrae, Secretary, Scottish Council (Development and Industry).
27th January 1956	'The Future Long-term Pattern of the British Economy': Professor E. A. G. Robinson, C.M.G., O.B.E., University of Cambridge.

22nd February 1956 'Banking in a Modern Economy': John Wadsworth, Esq., Manager, Intelligence Department, Midland Bank Ltd.

14th March 1956 'Wages Policy in the Light of Swedish Experience': T. L. Johnston, Esq., University of Edinburgh.

Glasgow Branch

(*Secretary:* M. Gaskin, Esq., D.F.C., Department of Political Economy, The University, Glasgow, W.2.)

20th October 1955 'Wage and Labour Problems as viewed by the Trade Unionist': George Middleton, Esq., C.B.E., Secretary of the Scottish T.U.C.

6th December 1955 'Problems of Industrial Finance': R. F. Henderson, Esq., Corpus Christi College, University of Cambridge.

24th January 1956 'Some Aspects of Scottish-American Relations': Francis A. Flood, Esq., American Consul-General in Scotland.

23rd February 1956 'Problems of Local Government Finance': G. B. Esslemont, Esq., J.P., City Chamberlain of Glasgow.

Dundee Branch

(*Secretary:* I. F. Gibson, Esq., Bonar House, Bell Street, Queen's College, Dundee)

6th October 1955 'Scottish Banking and Scottish Industry': F. S. Taylor, Esq., General Secretary of the Institute of Bankers in Scotland.

10th November 1955 'Industrial Relations': Professor D. F. Macdonald, Queen's College, Dundee, University of St. Andrews.

8th December 1955 'Industrial Investment': R. F. Henderson, Esq., Corpus Christi College, University of Cambridge.

Aberdeen Branch

(*Secretary:* D. L. Munby, Esq., 51 Whitehall Road, Aberdeen)

There will be four meetings, two before and two after Christmas. The meeting in February 1956 will be addressed by Mr. J. J. Campbell, General Manager of the Clydesdale and North of Scotland Bank, on 'Money and the Money Market'.

St. Andrews Branch

Meetings will be arranged in conjunction with the Political Economy Club of the University: details may be had from Professor J. W. Nisbet, Department of Political Economy, University of St. Andrews.

The audited accounts of the Scottish Economic Society for the period from its date of formation to 31st December 1954 are reproduced on the following two pages. These accounts were presented and approved at the Annual General Meeting of the Society in Glasgow on 24th March 1955.

SCOTTISH ECONOMIC SOCIETY

INCOME AND EXPENDITURE ACCOUNT

Period from Date of Formation to 31st December 1954

Expenditure				Income			
Scottish Journal of Political Economy				Subscriptions			
Net Cost of Publication after crediting Sales to Non-Members and Advertising			£617 19 7	293 Members at £1 1s. 0d. (1 member with 2 subscriptions)			£308 14 0
Administrative Expenses				1 Member for part of year			0 14 0
Stationery and Secretarial Expenses	£16 17 1			8 Members paid in foreign currency			9 16 0
Postages	8 1 2			4 Student Members at 15s.			3 0 0
Bank Charges and Cheques	0 15 6			306			
		25 13 9				£322 4 0	
Subscription to Royal Economic Society		1 10 0		Proportion of subscriptions applicable to 1955		3 6 0	
		£645 3 4				£318 18 0	
				5 Scottish Bank Subscriptions Bank of Scotland British Linen Bank Clydesdale and North of Scotland Bank Commercial Bank of Scotland Royal Bank of Scotland		150 0 0	
				Donation from Scottish Universities towards expenses of the *Scottish Journal of Political Economy*		255 19 5	
				Donations		2 15 0	
				Interest on Deposit Receipt		0 10 3	
Excess of Income over Expenditure for the period		82 19 4					
		£728 2 8				£728 2 8	

SCOTTISH ECONOMIC SOCIETY

BALANCE SHEET AS AT 31st DECEMBER 1954

ACCUMULATED FUNDS						
Funds of Scottish Society of Economists taken over				£70	8	2
Less: Expenses	£2	13	6			
Income Tax	2	2	3			
				4	15	9
				£65	12	5
Excess of Income for the period to 31st December 1954				82	19	4
				£148	11	9
SUBSCRIPTIONS PAID IN ADVANCE				56	17	0
LIABILITIES						
Publishers for Expenses of the *Journal*	£255	19	5			
Treasurer for Postages and Stationery	10	19	4			
Local Branch Secretaries for Outlays	3	12	9			
				270	11	6
				£476	0	3

ASSETS						
Cash at Bank						
On Current Account	£1	7	7			
On Deposit Receipt	218	13	3			
				£220	0	10
Donation from Scottish Universities towards expenses of the *Scottish Journal of Political Economy*				255	19	5
				£476	0	3

DAVID FLINT, *Treasurer.*

GLASGOW, 18th March, 1955.—I have audited the books and records of the Society for the period from 17th February 1954, to 31st December 1954, and have found them to be sufficiently vouched and instructed.

I have examined the above Balance Sheet and annexed Income and Expenditure Account which are in agreement with the books and records; in my opinion the Balance Sheet shows the state of the Society's affairs as at 31st December 1954, and the Income and Expenditure Account shows the excess of income over expenditure for the period stated.

JOHN A. STEWART, Chartered Accountant,
Honorary Auditor.

RECENT ECONOMIC TRENDS

SOME ASPECTS OF NEW ISSUES, 1948 - 53

FROM the point of view of the investor, the purchase of new issues has generally been regarded as a more risky undertaking than the purchase of securities of long standing. Writing in 1909, Lowenfeld offered the advice that no part of a new issue should be bought unless it is cheaper, safer and more remunerative than a similar stock of tried merit which can be bought at the same time in the market.[1] It is clear, however, that Lowenfeld was more concerned with the flotation of new companies than with issues made by well-established companies of known reputation. So far as the former are concerned, he states categorically that 'the chances against the best-founded new company proving itself to be a good investment cannot be taken at less than 7 : 5 against'.

In his assessment of the risks associated with new issues, Lavington[2] laid stress on the distinction between high-class securities, where buyers were almost as well placed to judge future prospects as sellers, and securities for which little reliable information was available to the investor. The importance of this distinction was forcibly brought out by the analysis of the 1928 new issue boom carried out by R. A. Harris.[3] His analysis showed that issues by public companies established before 1928 had survived the slump remarkably well. The market value of these issues had fallen by 21 per cent. between the time they were subscribed in 1928 and May 1931, compared with a fall of 14 per cent. in the *Bankers' Magazine* index of representative securities and a fall of 34 per cent. in variable dividend securities. At the other extreme, there had been a depreciation of 82 per cent. in the market value of securities issued for entirely new ventures.

In the intervening years changes in company law and various revisions in the Regulations of the Stock Exchange have gone a long way to protect the investor from the less reputable forms of new issues. Post-war issues have been made either to repay loans, widen the market for securities not quoted on the Stock Exchange or to raise new money for the expansion and development of existing business. Issues to finance new companies established to carry out entirely new ventures have been virtually non-existent. There is much less reason, therefore,

[1] H. Lowenfeld, *All about Investment* (London, 1909), p. 167.
[2] F. Lavington, *The English Capital Market* (London, 1921).
[3] 'A Re-analysis of the 1928 New Issue Boom,' *Economic Journal*, Sept. 1933.

to draw a sharp distinction between new issues and existing securities than when new issues were a common form of floating new enterprises.

With this in mind, it is of interest to see how new issues have fared in some post-war years. Was it good business for an investor to purchase new issues or would it have been better to have waited until the issue was successfully floated or to have eschewed new issues entirely, purchasing instead securities of long standing? Some very approximate answers to these questions are possible on the basis of what took place.

The statistical analysis carried out in this note is confined to new issues by public prospectus advertised with a form of application in *The Times* in the period 1948-53.[4] As is well known, new issues are frequently made in ways other than by public prospectus. New money may be raised by placing securities with financial houses who are able to sell their holdings on the Stock Exchange in the ordinary way, and rights issues to shareholders have also been very common. This latter method is a convenient and economical method of raising new money when a new issue can be made at less than the market rate it commands. When a company raises money by a public issue it is in duty bound to secure the best terms it can for its shareholders, but when a rights issue is made it is possible to offer new securities at less than the price they would command on the open market without the shareholders losing thereby. The difference between the issue and market prices accrues to the shareholders, offsetting the cost to the company of issuing at less than the market price. In general it behoves a shareholder to take advantage of his 'rights' either by subscribing the sums asked for or by selling at a premium to others willing to buy. It is not so much that the shareholder gains by taking up a rights issue, though on the face of it this is how it may appear, as that if he does not take advantage of his 'rights' he will lose by reason of the fact that the value of his existing shares is impaired because the company is raising capital at less than the market price it could secure.

It might be thought at first sight that the premia generally realised by rights issues represent tax-free capital gains to shareholders. This is not the case. What is gained on the rights issue is lost on the securities already held. Only if shareholders were offered debentures by right would any taxation benefit result. And this would arise not by virtue of the rights issue but because debenture interest does not figure in profits and so is not liable to profits tax.

[4] The few issues made by tender or for quotation only on a provincial stock exchange are excluded.

When issues are made by public prospectus it is the usual practice to offer securities at some fixed price as near as possible to that which it is thought will be acceptable to the market. Fixing the issue price calls for considerable skill and judgment. If the price proves to be less than the market is prepared to pay, the company is the loser; correspondingly, if it is too high the company gains.[5] But an appreciable error in either direction is indicative of failure to relate the marginal efficiency of capital to the rate of return acceptable to the marginal investor.

Some large differences between issue and opening prices might be expected, considering the complexity of the decisions involved and the possibility that market conditions may alter radically, even in the short time that elapses between fixing the issue price and the opening date for dealings in the new security. It is not uncommon for a new issue of ordinary shares to be at a premium or discount of 10 per cent. on the opening day, and several instances of larger differences occurred in the years 1948-53. Since the costs of floating a new issue may amount to 10 per cent. of the capital to be raised in the case of a small issue, a company whose shares are at a premium of 10 per cent. on the opening day may be paying 20 per cent. more for its capital than if it had been possible to approach potential investors directly or to provide the finance needed out of its own resources. This is a large figure by any standards. It is, for example, twice the saving in capital cost of new plant and machinery resulting from the investment allowances instituted in the 1954 budget.

For the small investor, new issues by public prospectus offer a very convenient method of buying securities. But when premia or discounts of the order of 10 per cent. may occur within a few days of purchase it is also extremely risky. New issues are not peculiar in this respect; the quotations of any securities, new or old, may fluctuate quite widely within a matter of days. It is, however, of some importance to decide whether there is any tendency for the price at which new issues are made to approximate on the average to the price established on the day dealings begin. Table I sets out some data on this point for various types of new securities issued to the public in the years 1948-53.

In order to give some indication of the range of variation occurring, issues have been divided according to whether they were quoted at a premium or at a discount on the opening day. It is clear from Table I, and from a more detailed examination of the individual figures, that

[5] Since financial houses frequently purchase the whole of an issue before making it available to the public, the gain or loss to the company may be indirect.

government issues and issues by Commonwealth countries opened at a price very close to the price at which the issue was made. The widest range of variation is indicated for ordinary shares, followed by preference shares. The number of cases considered is limited but the general picture given by them is what we might expect to find. The large

TABLE I

OPENING PRICES OF NEW ISSUES AS A PERCENTAGE OF THE ISSUE PRICE, 1948-53

	Issues by central and local government in the U.K. (including guaranteed stocks)	Issues by Commonwealth countries and cities (including some non-Commonwealth countries)	Issues by industry		
			Ordinary	Preference	Debenture
	Issues opening at a premium or at par				
Average percentage of issue price	100·6	100·8	105·4	103·8	101·7
No. of cases	24	33	56	54	40
	Issues opening at a discount				
Average percentage of issue price	99·9	99·1	92·5	95·2	96·4
No. of cases	9	12	34	16	8
	All issues				
Average percentage of issue price	100·3	100·3	100·5	101·8	100·8
No. of cases	33	45	90	70	48

number of existing government issues of varying dates of maturity and interest rates provides a grid against which the terms of any new issue may be compared fairly readily ; the risk of default is negligible for home issues and probably small for members of the Commonwealth, and with issues of this nature the market may be very carefully sounded as to the acceptability of the issue. There is a much greater element of uncertainty when issues of ordinary shares are floated. The rate of return is always in doubt and may be assessed very differently by different investors; the market may be narrow, and it may be difficult to find comparable shares, already quoted, to serve as a guide to market possibilities.

Over the period as a whole, considering successful and unsuccessful issues together, it appears that a small premium was achieved on the average for all the main classes of securities issued for public subscription. It is, of course, impossible to say whether this is also the case for other years, but the small size of the premia occurring does not suggest that the small investor can profit immediately by an indiscriminate purchase of new issues even if this is maintained over a period of

years. If purchases are restricted to only a few issues, less chance of loss (or gain) is likely if government stocks are purchased in preference to ordinary shares.

We may turn now to considerations of a longer-term nature. When an investor purchases new issues he may be presumed to have decided that this course of action is better for him than leaving his financial resources untouched or making alternative purchases. The main considerations influencing him are likely to be the income he expects

TABLE II

THE PRICE OF NEW ISSUES ON 22nd JANUARY 1954 AS A PERCENTAGE OF THEIR ISSUE PRICE

	U.K. Government issues (including guaranteed stocks)[a]		Issues by Commonwealth countries and cities (including some non-Commonwealth issues)		Issues by Industry					
					Ordinary		Preference		Debenture	
	No. of cases	%	No. of cases	%	No. of cases	%	No. of cases	%	No. of cases	%
1948	2	89	5	90	41	105	27	78[b]	6	84
1949	1	93	6	92	15	112	21	83	7	86
1950	5	93	10	92	8	104	7	89	8	96
1951	3	97	8	92	13	109	7	94	11	96[c]
1952	3	106	9	103	4	110	1	105	5	106
All years	14	96	38	94	81	107	63	83	37	93

[a] Excluding near-dated funding issues.
[b] Excluding an issue by Butlins (Bahamas), in liquidation.
[c] Excluding an issue giving an option for the purchase of ordinary shares.

to derive from the various alternatives in front of him and the possibilities of capital gains or losses. A very large number of statistical comparisons could be devised to assess retrospectively whether a decision to purchase new issues had been a wise one. One test is to compare the price of new issues at some future date with their purchase price. Such a test takes no account of the income secured from a new issue during the period of its existence or of the alternative income-producing possibilities which were open to the investor, and it is obvious that the comparison will be greatly affected by the period considered, but it is the kind of test that investors are prone to apply from time to time in a retrospective assessment of their actions. Some calculations of this kind are given in Table II. The price of each new issue on 22nd January 1954 was expressed as a percentage of its issue

price, and an unweighted arithmetic average was taken for various categories of issues made in the years 1948-52. The market was rising in January 1954, but the major rise in security prices came later in the year.

The statistical details in Table II must be regarded with some reserve. It is obvious that when the number of cases included in the various categories is small (in some cases only one example is included) very little can be gleaned from the figures. But possibilities of error arise in other ways. The price of a new issue was taken as the mid-point of the range given in the *Stock Exchange Monthly List;* sometimes this range is rather wide and the mid-point may not be an accurate indication of the price at which actual transactions took place. In some cases owners of new issues had benefited from bonus issues or from rights issues, and the price shown in the *Monthly List* had to be adjusted to take account of this. The adjustments for bonus issues were sometimes large and, though considerable care has been taken to ensure that bonus issues are properly accounted for, any errors or omissions could have an appreciable effect on the results when only a small number of cases are averaged. The adjustments for rights issues are generally less critical. The method followed was to take the value of the rights (per share) determined by the market when dealings in the rights issue began and add this to the price given for the original shares on 22nd January 1954. Other principles might have been adopted but the results are not likely to be greatly affected.

Table II suggests that, on the average, new issues of ordinary shares showed some capital appreciation between the time they were issued and 22nd January 1954. The words 'on the average' need to be stressed, for in most years there are cases both of conspicuous failures and of conspicuous successes. For example, shares issued by a number of companies in 1948 had lost half their value by January 1954 and some had sunk to one-third or less of their original value; at the other extreme, however, an issue by Whitbreads had more than trebled in value over the period considered. New issues of fixed-interest securities, made in the years 1948-51, were worth less on the average on 22nd January 1954 than they had cost at the time of issue but, for Government and Commonwealth issues at least, the loss was not generally so great as to suggest that it would have been preferable to keep funds completely idle rather than invest them in these types of new issue. But for most investors in these years it would have been better to deposit money in savings banks, so maintaining their money-capital intact while obtaining interest, than to use it for the purchase of new Government or Commonwealth securities.

On the whole, we may conclude that an investor who had purchased £100 of every new issue considered in Table II would be fairly satisfied with his purchase of ordinary shares but less satisfied with his purchase of fixed-interest securities. But he might be inclined to extend his comparisons in order to see how he would have stood if he had purchased existing securities rather than new issues. Table III attempts to show what would be the result of this comparison. It is of similar construction to Table II but the price of each ordinary

TABLE III

PRICE MOVEMENTS OF NEW ISSUES AS A PERCENTAGE OF THE MOVEMENT OF THE *FINANCIAL TIMES* INDICES

(The comparison is made between the date of issue and 22nd January 1954 in each case)

	Issues by central government in U.K. (including guaranteed stocks)[a]		Issues by Commonwealth countries and cities (including some non-Commonwealth securities)		Issues by industry					
					Ordinary		Preference		Debenture	
	No. of cases	%	No. of cases	%	No. of cases	%	No. of cases	%	No. of cases	%
1948	2	106	5	107	41	92	27	92[b]	6	100
1949	1	101	6	104	15	94	21	96	7	100
1950	5	102	10	101	8	90	7	97	8	104
1951	3	101	8	98	13	103	7	100	11	100[c]
1952	3	99	9	96	4	94	1	98	5	99

[a] Excluding near-dated funding issues.
[b] Excluding an issue by Butlins (Bahamas), in liquidation.
[c] Excluding an issue giving an option for the purchase of ordinary shares.

security on 22nd January 1954, relative to its issue price, has been divided by the *Financial Times* index of ordinary securities on 22nd January 1954, relative to its level when the new issue was made; and a similar procedure using the *Financial Times* index of fixed-interest securities has been carried out for fixed-interest issues. In effect, we are comparing the purchase of new issues against the purchase, in appropriate proportions, of the securities included in the *Financial Times* indices. In many ways this is a more interesting comparison than the previous one since it is a measure (however imperfect) of the relative merits of old and new securities and it eliminates the effect, apparent in Table II, of differing movements in the prices of fixed- and variable-interest securities. It is possible, of course, that

an investor would have preferred to purchase new issues rather than existing securities even if the former were expected to decrease in price relative to the latter provided he secured some other advantage, such as a higher yield, by so doing; but this factor is likely to be of subsidiary importance when high taxation reduces net yields and throws the emphasis on capital gains or losses.

The statistical reservations expressed about Table II apply equally to Table III. It is apparent at once that a vastly different picture is given when the advantages of old and new securities are compared rather than the advantages of investing or abstaining from investing. It appears that in the period 1948-52 there was not a great deal to choose between buying the existing fixed-interest securities covered by the *Financial Times* index and buying new Government securities. Commonwealth securities also compare reasonably well with the index. On the average, debenture issues also appear to have made a favourable comparison, but an examination of the detailed figures suggests that this may be misleading since there were several instances of relative gains or losses of as much as 10 per cent. in individual cases. It is less easy to generalise about issues of ordinary and preference capital. On the whole, Table III suggests that they compare somewhat unfavourably with the *Financial Times* indices, though not markedly so. If allowance is made for the savings on stamp duty and brokerage charges which are involved in purchasing existing securities, the comparison becomes less unfavourable to the new issues. Reference may be made again, however, to the wide variation in the results of individual issues. As might be expected, preference shares showed a less-marked spread of relative gains or losses than ordinary shares. The opportunity for gains is less with preference shares and the interest on them is better secured.

We may tentatively conclude that, in the years considered, the small investor bent on purchasing new issues would have done better to buy ordinary securities than fixed-interest securities but a still more advantageous course would have been to have purchased representative ordinary securities covered by the *Financial Times* index.

It is not, of course, possible to generalise on the limited basis of the new issues considered in this note. In the post-war period, the value of ordinary securities has been governed by the amount of profits distributed by companies as well as by the profitability of their undertakings. If it were generally true that over a period of years new issues tended to compare unfavourably with existing securities, this would

suggest that capital was being made available more cheaply than the circumstances warranted. A highly developed technique of launching new issues can be an extremely wasteful method of raising new capital if it leads to a persistently over-optimistic view of the future prospects of companies in need of new money.

J. R. PARKINSON

Glasgow

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